# Template for costing policies of opposition parties

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| Description of policy |
|---|
| • Labour have proposed giving the Green Investment Bank significant powers to borrow from the private sector.<br><br>• 'The Green Investment Bank should play a key role in this but is currently hampered in its ability to operate. The Bank claims to have leveraged in £3 from the private sector for every £1 that they have invested and has the potential to do so much more. So we will give it the powers to borrow and the freedom to act as a bank capable of attracting new investment' (Caroline Flint, Speech to the Economist Energy Conference 2014, 10 June 2014, link).<br><br>• 'Giving the Bank the power to borrow on the open market would lever in several times more capital and get considerably more bang for the government's buck' (Ed Balls, New Statesman, 10 July 2013, link). |
| **Additional policy assumptions** |
| • Assume the GIB is given borrowing powers and is able to take on borrowing costs (i.e. debt and interest costs) that in 15/16 are three times the level of capital which is currently assigned to it. This assumption is based on the quote below that borrowing powers would lever in "several times more capital", implying that the GIB would be able to borrow at least three times its current capital.<br><br>• Special Advisers have asked for two variants of the costing, one where all the additional capital is deployed in 2015-16 and one where it is divided evenly over 2015-16, 2016-17 and 2017-18. |
| **Additional technical modelling assumptions or judgements required** |
| • Assume that GIB borrows at a small premium above gilts, in the range of 2.0% – 3.0% in the 5-10 year sector. This is the current range between the rate of borrowing for Network Rail and the weighted average spread for GBP investment grade financials.<br>• Assume that GIB will achieve between 3.5% and 8% on its investments, although not in the first year. |
| **If needed, information required on distributional effects of the policy** |
| |
| **Cost/Revenue to the Exchequer over five years** |

GIB's current total allocation of funding is £3.8bn. The principal debt taken on when borrowing from the private sector affects neither PSND nor PSNB. However when these funds are deployed into specific investments the financial transaction is CDEL which scores against PSND. The cost of servicing debt scores against PSNB and PSND in RDEL. The costing assumes a range of time periods for the capital to be deployed from one to three years. Either scenario would represent a very significant increase in the amount of capital the GIB deploys in any one year.

**Variant 1 – assuming all the additional capital is deployed in 2015-16**

| | DEL Costs | | | | |
|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Current | £0.2bn - £0.3bn | £0.2bn - £0.3bn | £0.2bn - £0.3bn | £0.2bn - £0.3bn | £0.2bn - £0.3bn |
| Capital | £11.1bn - £11.2bn | - | - | - | - |
| **Total** | £11.4bn | £0.2bn - £0.3bn | £0.2bn - £0.3bn | £0.2bn - £0.3bn | £0.2bn - £0.3bn |

Government has set a minimum targeted return of 3.5% on each GIB investment. GIB's annual report states that, once built, the exiting portfolio is predicted to return at least 8%.

| | Revenue | | | | |
|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| **Total** | £0.4bn - £0.9bn | £0.4bn - £0.9bn | £0.4bn - £0.9bn | £0.4bn - £0.9bn | £0.4bn - £0.9bn |

**Variant 2 – assuming the additional capital is deployed evenly over 2015-16, 2016-17 and 2017-18**

| | DEL Costs | | | | |
|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Current | £0.1bn | £0.2bn | £0.3bn | £0.3bn | £0.3bn |
| Capital | £3.7bn | £3.7bn | £3.7bn | - | - |
| Total | £3.8bn | £3.9bn-£4.0bn | £4.0bn-£4.1bn | £0.3bn | £0.3bn |

Government has set a minimum targeted return of 3.5% on each GIB investment. GIB's annual report states that, once built, the exiting portfolio is predicted to return at least 8%.

| | Revenue | | | | |
|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| **Total** | £0.1bn-£0.3bn | £0.3bn-£0.6bn | £0.4bn-£0.9bn | £0.4bn-£0.9bn | £0.4bn-£0.9bn |

Note: This variant has been modelled on the same range of variables for interest rates and total initial capital as in the first variant, the only difference being the time period over which the capital is deployed. The tables show the results to the nearest £100m. In some cases this degree of rounding means that a range is not shown in the table. As a result of this the total figures are not necessarily the sum of the current and capital costs in every year.

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|---|---|
| Distributional effects (if none requested, any significant): | |
| | |
| Comparison with current system (if applicable): | |
| GIB investment affects PSND only, although the cost of servicing debt scores against both PSNB and PSND.  Based on the assumptions above the initial increase to debt would therefore be £11.4bn in 15/16 in the first variant.  The effect thereafter is subject to the performance of GIB's investments and the rate at which GIB borrows.  Per year, this may reduce PSND and PSNB by between £0.0bn and £0.7bn. | |
| Other comments (including other Departments consulted): | |
| | |
| *To be completed by Permanent Secretary's Office*<br>Date costing signed off: | 30/12/2014 |
| *[If applicable]*<br>Date revised costing signed off: | |