

**Department For Business, Energy And
Industrial Strategy**

**Report to Parliament on the disposal of
the Crown's shares in UK Green
Investment Bank**

*Presented to Parliament by the Secretary of State for Business, Energy
and Industrial Strategy pursuant to Section 6A of the Enterprise and
Regulatory Reform Act 2013*

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1. Introduction

- 1.1 Work to establish the UK Green Investment Bank (GIB) began in 2010. An expert advisory group was established to explore the options and make recommendations on the detailed design and structure of the bank. Detailed proposals for GIB were set out in a policy document published in May 2011¹.
- 1.2 GIB began operating in 2012 as the world's first dedicated green investment bank, to accelerate private sector investment into the UK green economy. It has operated on a fully commercial basis, like any other market participant, but with the aim of demonstrating that green investment can be both green and profitable. Working alongside over 100 private sector and third party investment partners, by March 2017 GIB had supported 100 green infrastructure projects with a total value of over £12 billion in the UK.
- 1.3 GIB was designed specifically with a view to an eventual transfer into private sector ownership. The May 2011 policy document stated:

“The GIB will initially be owned by the government and will operate as a separate institutional unit at arm's length and with full operational independence. The GIB's proposed governance model will be designed to allow for a possible eventual transfer of ownership from government to the private sector of some or all of its activities.”
- 1.4 The government first announced it was to begin working on plans to attract private capital into GIB in the 2013 Autumn Statement. The government reiterated that it was taking forward this work in the 2014 Autumn Statement and the 2015 Budget debate. Then, in June 2015, the government announced its firm intention to move GIB into private sector ownership. This was a natural next step for the business, with the company having proved itself a successful commercial enterprise, with market failures in green investment having eased in the aftermath of the financial crisis and with strong interest in acquiring a stake in GIB from a number of large scale institutional investors (as noted in the next section).² GIB's board were fully supportive of this move and considered this to be important in enabling the company to have a greater impact on green investment.
- 1.5 Lord Smith, then the GIB Chair, reiterated this in his statement in GIB's 2015/16 annual report and accounts³:

¹ <https://www.gov.uk/government/publications/green-investment-bank-design-update>

² <https://www.gov.uk/government/publications/uk-green-investment-bank-examining-the-case-for-continued-intervention>

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/537293/gib-annual-report-2015-16-web.pdf

“...The Board has been considering options for GIB’s long-term funding for some time. Following the UK general election, the Secretary of State for Business, Innovation and Skills announced the intention to sell down the UK Government’s ownership of GIB and to move GIB into the private sector. The Board is supportive of this as it provides the organisation with the best route to securing the capital GIB needs for its long-term growth and the achievement of a greater and growing green impact.”

- 1.6 In addition, moving GIB into the private sector frees it from the constraints of public sector ownership, including both restrictions on GIB’s ability to raise finance externally and State aid restrictions, which required it to operate strictly in accordance with the limits of its State aid approval from the European Commission.
- 1.7 Further information on the government’s rationale for the sale of GIB can be found in the government’s policy statement published in November 2015⁴, along with the Environmental Audit Committee’s December 2015 report on the decision to privatise GIB⁵ and the government’s February 2016 response.⁶
- 1.8 The government launched the sale of GIB in March 2016 and laid a report to Parliament⁷ setting out the process for the transaction. Prior to the launch of the sale, the government had introduced legislation through the Enterprise Act 2016 which would repeal statutory controls over GIB, in order to allow GIB to be re-classified to the private sector following a sale. This legislation required government to lay a report to Parliament setting out the details of the proposed sale, and the March 2016 report fulfilled this requirement.
- 1.9 On 20 April 2017, the government announced the sale of GIB to a consortium led by Macquarie Group Limited (Macquarie), through a written ministerial statement⁸ to Parliament and a press notice⁹. The transaction completed in August 2017 with the 100% sale of GIB to Macquarie.¹⁰
- 1.10 The proceeds returned to taxpayers from the sale were £1.75 billion. This sees all taxpayer funding provided to GIB since its inception in 2012, including set-up costs, returned with a gain of around £186 million. Macquarie and its consortium partners will also fund GIB’s future existing funding commitments, which would otherwise have been borne by

⁴ <https://www.gov.uk/government/publications/green-investment-bank-the-future>

⁵ <https://publications.parliament.uk/pa/cm201516/cmselect/cmenvaud/536/53602.htm>

⁶ <http://www.parliament.uk/documents/commons-committees/environmental-audit/CM9201-Government-response-to-Environmental-Audit-Committee-report-The-Future-of-the-Green-Investment-Bank.pdf>

⁷ <https://www.gov.uk/government/publications/green-investment-bank-sale-of-shares>

⁸ <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2017-04-20/HCWS600/>

⁹ <https://www.gov.uk/government/speeches/sale-of-green-investment-bank>

¹⁰ <https://www.gov.uk/government/news/uk-governments-sale-of-green-investment-bank-completed>

taxpayers, and which were valued at over £500 million as at completion. This gives a total transaction value of around £2.3 billion.

- 1.11 This report sets out the details of the sale process and how the government's objectives for the sale were met, as required by section 6A of the Enterprise and Regulatory Reform Act 2013 (as amended by the Enterprise Act 2016). In accordance with the act, a copy of this report is provided to Scottish ministers, Welsh ministers, and the Office of the First Minister and Deputy First Minister in Northern Ireland.
- 1.12 In conducting the transaction, both government and all potential bidders have signed confidentiality agreements which place restrictions on the disclosure of information, many of which continue to apply even after the transaction has completed. However, where possible, the government is providing further details on the transaction process in this report, including previously confidential information.

2. Details of the transaction

- 2.1 This section outlines how the government undertook the transaction, and what the outcome was.

Transaction process

- 2.2 The government's March 2016 report stated that GIB would be sold through a two stage competitive sale auction process, following an extensive pre-marketing exercise with potential investors, both UK-based and international.
- 2.3 The transaction process was managed by UK Government Investments (UKGI) on behalf of the Secretary of State for Business, Energy and Industrial Strategy, with expert advice provided by Bank of America Merrill Lynch (BAML) and Herbert Smith Freehills (HSF). Further detail on the advice that government received on the transaction and associated costs are in Annex 2. The GIB board and management were advised in the transaction process by UBS and Slaughter & May.
- 2.4 As set out in the March 2016 report, the government has sought to follow best practice throughout the GIB transaction, based on the recommendations made by the National Audit Office (NAO) in their November 2015 report on the government's sale of Eurostar. The government's February 2016 response to the EAC report set out how the sale process was designed to meet those recommendations.

Pre-marketing and Round 1

- 2.5 The government and its advisers BAML undertook an extensive pre-marketing exercise prior to the decision to launch the transaction, contacting over 50 potential investors, both UK-based and international. This tested market appetite for acquiring GIB and allowed the sale process to be designed to attract a diverse and relevant group of potential investors, in order to meet the government's objectives for the transaction.
- 2.6 The government also prepared an Outline Business Case, in line with Treasury Green Book guidance on 'Appraisal and Evaluation in Central Government'.
- 2.7 Round 1 of the transaction was launched in March 2016. During Round 1, potential investors were invited to register their interest in the process by completing a bidder information form. BAML contacted over 100 investors during Round 1. Those who met the qualifying requirements for the process then executed a confidentiality agreement, following which they were sent an information memorandum and Round 1 letter with further information on GIB's business, to allow them to submit non-binding initial bids for between 75% and 100% of GIB. Confidentiality agreements were signed with 40 parties in total (in Round 1 confidentiality agreements were signed with 26

parties, and during Round 2 consortium leaders invited additional financing parties to the process who also signed confidentiality agreements). The Round 1 letter set out the process and procedures for submitting a non-binding initial offer for a stake in GIB.

- 2.8 The information memorandum contained confidential information on GIB and its business plans, including: GIB's existing portfolio of investments and future investment plans; information on the UK and global green infrastructure markets; and details of GIB's operations including its budget, governance and management. It also contained additional details on the proposed transaction structure for the sale of GIB, including details of the special share to be held by independent trustees to protect GIB's green mission (further information on this is provided later in this document¹¹). As set out in the March 2016 report, the information memorandum informed potential investors that they would be asked to confirm their commitment to GIB's green values and to set out how they proposed to protect them.
- 2.9 In late April 2016, the government received five initial bids from bidders (either single entities or bidding consortia) including from the eventual successful bidder, Macquarie. Round 1 bids were required to contain an indication of the value of the bidder's offer and, amongst other things:
- details of the bidder's business
 - the bidder's financing for the offer
 - the bidder's plans for GIB and specifically its commitment to GIB's green values
- 2.10 Some bids were for 100% of GIB, others were for a smaller stake or a subset of assets. All bids were evaluated against the government's objectives for the sale of securing value for money for the taxpayer, declassification of GIB from the public sector, and maintaining GIB's green values (as set out in Section 3 of this report)¹², to determine which bidders should be invited to proceed to the second round of the sale.

Round 2

- 2.11 In May 2016, four bidders were shortlisted and invited to proceed to Round 2 of the transaction process, at the end of which bidders would submit formal, final, binding offers.
- 2.12 The Round 2 letter reiterated the transaction objectives previously set out in Round 1. It informed bidders that the government had a preference to sell 100% of the shares in GIB, since the market feedback from Round 1 demonstrated that a 100% sale would be most likely to meet the government's sale objectives of value for money and ensuring GIB could be

¹¹ See paragraphs 3.21 to 3.25

¹² The government's sale objectives were set out in the March 2016 report, and are also detailed in Section 3 of this document.

classified to the private sector. The Round 2 letter also stated that the government would consider alternative proposals from bidders, retaining sufficient flexibility for both bidders and government if these alternative options (such as a retained government stake in GIB) could be shown to meet the sale objectives.

- 2.13 During Round 2, bidders had access to a Virtual Data Room (VDR) into which detailed information on GIB was placed. This included detailed due diligence reports, GIB investment details, further confidential data, draft transaction documents and information and updates on GIB's investment pipeline. Bidders were also offered and received presentations from GIB's management team and extensive due diligence sessions with GIB executives. All bidders were able to participate in a question and answer (Q&A) process to conduct their own individual due diligence. The Q&A process saw around 2,000 questions in total asked by bidders, and answered by GIB or government. Round 2 was therefore a more intensive stage of the process with bidders undertaking detailed due diligence on GIB's business and investments.
- 2.14 The government initially gave bidders a deadline of July 2016 to submit final offers for GIB. However, during the course of Round 2, it became clear that bidders would benefit from additional time to undertake due diligence, due in part to technical issues accessing the VDR. The government therefore decided to extend the deadline for final offers to September 2016, and asked bidders to submit interim (non-binding) offers for the original July deadline.
- 2.15 Four interim (non-binding) offers were submitted by bidders in July. These were considered by government and its advisers, and feedback was provided to bidders to help inform their final offers to be submitted in September. Following submission of the interim offers, two bidders chose to exit the sale process.
- 2.16 Following further due diligence work with government and GIB, the two remaining bidders submitted offers in September 2016: one for 100% of GIB, and one for 75% with government retaining a 25% stake. Each final offer was required to set out the bidder's overall valuation and price for GIB, confirmation of funding, details of their plans for future of GIB, future funding and protection of its green mission.

Evaluation of bids and selection of preferred bidder

- 2.17 The government undertook an evaluation of each bid against the sale objectives, supported by advice from advisers BAML and HSF.
- 2.18 The bid which scored the highest against the objectives was from the Macquarie-led consortium. In October 2016, the government therefore selected the Macquarie consortium as its preferred bidder and granted them

a period of exclusive negotiation ('exclusivity'), on the condition that they agreed to meet specific terms which would ensure their bid met fully the transaction objectives. These terms included asking Macquarie to raise their final offer for GIB.

Final stage negotiations

- 2.19 During the period of exclusivity, the government and GIB worked with Macquarie to prepare the necessary documentation and terms for the sale. GIB also undertook work with the approval of government as shareholder to prepare the business for the move to the private sector. This included a restructuring of GIB, agreed between government and Macquarie, to facilitate Macquarie's bid for the company.
- 2.20 The government and Macquarie each continued to assess the value of GIB and both sides negotiated further on price during the exclusivity period. In particular, the government ensured it reassessed the offer from Macquarie at key stages against its sale objectives, particularly value for money, taking into account any new information such as changes to the value of GIB's investments and additional funding provided to GIB by the government over the course of the sale process, which funded GIB's ongoing investment activity. This enabled the government to achieve a higher final offer from Macquarie than their September 2016 offer.
- 2.21 In December 2016, during the period of exclusivity, one of the other bidders, who had not been selected as preferred bidder, challenged the government's decision to select Macquarie as its preferred bidder. The application for judicial review was heard in the High Court in March 2017. The judgment which followed in April rejected the claim, both on procedural and substantive grounds.

Signing and completion

- 2.22 Following receipt of the High Court's judgment, the government and Macquarie were able to sign a binding agreement for the sale of GIB. This took place on 19 April 2017, and was announced the following day.
- 2.23 As announced at signing, a number of conditions were required to be satisfied before the sale could complete. These included securing EU merger control approval and notifying the Financial Conduct Authority (FCA). Consents from third parties, such as co-investors in projects supported by GIB, were also required before the transaction could close.
- 2.24 Once all conditions were satisfied, the sale could complete, and this took place on 17 August 2017. As part of completion, shares in GIB were transferred from government to Macquarie, and the proceeds of the sale paid from Macquarie to government via GIB. This was a condition set by the European Commission, requiring GIB itself to repay all State aid it had received, to ensure it would be freed from State aid constraints. The relevant

provisions of the Enterprise Act 2016 were commenced and the special share also came into force at the point of completion¹³.

Role of the GIB Board and Staff

- 2.25 The sale process was conducted by government, as the shareholder of GIB, and all decisions regarding the process and the selection of the buyer were for ministers. However, the government recognised the depth of experience and knowledge of the GIB's independent board, particularly around the workings of the business and its future in the private sector, and the government has been extremely grateful for the support and considered views of the GIB board throughout the sale process. The GIB board were involved at key stages of the sale, ensured they discharged correctly their duties as directors of the company, and were supportive of the final outcome.
- 2.26 The government would also like to express its thanks to GIB management and staff for the key role that they played in GIB's success, and who have worked tirelessly and professionally to support the sale of the company. During the sale process, GIB continued to grow its business and green impact, while undertaking its largest single transaction and reaching final close of its Offshore Wind Fund. The government is grateful to all GIB staff, past and present, for their hard work and commitment.
- 2.27 As part of the sale process, a number of indemnities were granted to GIB staff to protect them from any future claims based on advice they had provided on the sale. Details of these indemnities were laid in the House¹⁴.

Transaction outcome

- 2.28 GIB has been acquired by a consortium led by Macquarie Group Limited (Macquarie), together with Macquarie European Infrastructure 5 (MEIF 5)¹⁵ and the Universities Superannuation Scheme (USS)¹⁶. The transaction completed on 17 August 2017.
- 2.29 The transaction saw Macquarie acquire 100% of the Green Investment Bank. The Crown therefore retains no share capital in GIB. A separate company, the UK Green Infrastructure Platform (UKGIP), has been created to hold the government's interest in a small portfolio of assets formerly held by GIB. Further detail on UKGIP is provided in the section covering the future of the GIB (Section 4).

¹³ See Section 3 for further information on the Special Share

¹⁴ <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/?page=1&max=20&questiontype=AllQuestions&house=commons%2clords&use-dates=True&answered-from=2017-09-06&answered-to=2017-09-06>

¹⁵ <https://www.macquarie.co.uk/mgl/uk/meif/meif-5>

¹⁶ <https://www.uss.co.uk/>

- 2.30 A 'special share' has been created in GIB plc which is held by an independent body, the Green Purposes Company Limited. Further detail on the special share is set out in the next section of this report.
- 2.31 The proceeds returned to taxpayers from the sale were £1.75 billion. This sees all taxpayer funding provided to GIB since its inception in 2012, including set-up costs, returned with a gain of around £186 million. Macquarie and its consortium partners will also fund GIB's future existing funding commitments, which would otherwise have been borne by taxpayers, and which were valued at over £500 million as at completion. This gives a total transaction value of around £2.3 billion.

3. Meeting the transaction objectives

- 3.1 The government's March 2016 report set out that the primary objectives for the sale of GIB were to achieve value for money for the UK taxpayer, and reclassification of GIB to the private sector. The government also set out to maintain GIB's green values and investment principles. The government has always been clear that it wants GIB to continue to perform its important role of accelerating more private capital into green sectors and further accelerate the transition to a green economy.
- 3.2 This section provides an assessment of how the government's objectives for the sale were met.

Securing Value for Money

- 3.3 UKGI prepared an assessment of the economic value of the different options for GIB at each key stage of the process:
 - February 2016 outline business case, before the launch of the transaction
 - September 2016 full business case, ahead of the receipt of final offers for GIB
 - March 2017 final business case, based on Macquarie's final offer for GIB
- 3.4 Quality assurance of UKGI's valuation in the outline business case was undertaken by the BEIS Operational Research Unit in February 2016. UKGI's valuation was also subject to an independent challenge panel process involving senior officials from UKGI and UK Financial Investments (UKFI) at the outline and full business case stages. In addition, in line with the NAO's best practice recommendation, an independent valuation was conducted by Ernst & Young (EY) in August 2016. For the final business case in March 2017, UKGI updated its economic valuation of the different options for GIB. These economic valuations were reviewed by both BAML and EY. The outline and full business cases were also scrutinised by a HM Treasury Approval Panel.
- 3.5 This valuation analysis enabled government to compare the economic value of offers for GIB against the economic value of alternative options. Within this assessment, non-financial costs and benefits were also considered, including the potential impact on GIB's international pilot with BEIS, and GIB continuing to achieve the 'green and profitable' demonstration effects in relation to other investors and governments. For each alternative option, a number of potential upside and downside scenarios were considered such as a positive or negative movement in power prices, which gave a range of possible valuations.

- 3.6 Macquarie's final offer for GIB generated sale proceeds of £1.75 billion for government at completion in August 2017. The government's assessment was that this result represents value for money for the UK taxpayer. The price achieved is within the valuation range for the alternative options, and compared to the other options offers a higher degree of certainty, reduces the risks to which taxpayers are exposed, and importantly does not require continuing significant financial support from the UK taxpayer.
- 3.7 The sale proceeds mean that all taxpayer funding invested in GIB has been returned with a gain of around £186 million. In addition, Macquarie and its partners have agreed to meet over £500 million of GIB's current outstanding commitments which would otherwise have had to be met by UK taxpayers, and means that the overall transaction value is around £2.3 billion. Macquarie have also undertaken to target at least £3 billion of new investment in green projects via GIB over the next three years.
- 3.8 Annex 3 provides a reconciliation of the sale value achieved for GIB and the funding it has received from government since its creation.
- 3.9 The government therefore assesses that the objective to secure value for money for UK taxpayers has been met.

Re-classification to the private sector

- 3.10 The government wanted to ensure that GIB would be classified to the private sector following a sale, in order to remove the constraints on GIB which were necessary in public sector ownership. For example, in the private sector, GIB would be free to borrow and raise capital to grow its business, without this impacting on public sector net debt.
- 3.11 Decisions on classification are made by the Office for National Statistics (ONS). As set out in the March 2016 report to Parliament, one of the key questions for the ONS in determining whether an organisation is classified to the public or private sector is whether the government exercises significant control over the general corporate policy of that organisation. As that report made clear, various situations or outcomes could prevent GIB from being reclassified to the private sector, for example: if the government was to retain a majority, or even a significant minority, of shares in the company; if the government held a 'special share' with significant powers of control; or if specific controls over GIB were provided for in legislation.
- 3.12 The outcome of the sale is that 100% of the shares in GIB have been sold to Macquarie and its partners. At the point of completion of the sale, government repealed the relevant provisions of the Enterprise and Regulatory Reform Act 2013, by commencing section 37 of the Enterprise

Act 2016. This removed the statutory controls over GIB's green purposes, which was a necessary step to ensure that GIB can be reclassified to the private sector. The green 'special share' held by the Green Purposes Company Limited came into force from this point, giving GPC's five independent trustees the power to approve or reject any proposed changes to the GIB's green purposes in the future.

- 3.13 Following completion of the sale, ONS have made a decision¹⁷ on GIB's classification and have confirmed that GIB is now classified as a private financial corporation, and that a true sale of GIB from the government to the private sector has taken place.
- 3.14 The government therefore assesses that the objective to re-classify GIB to the private sector following a sale has been met.

Maintaining GIB's green values

- 3.15 One of the original policy goals of the GIB, as set out in the May 2011 policy document, was for it to be an "enduring institution", and the company was set up to allow for this. The government has always been clear that it wants GIB to continue to perform its important role of mobilising more private capital into green sectors and further accelerating the transition to a green economy. The main form of protection arises from the commercial reality that GIB is a green infrastructure investment company and that is where its expertise and future business success lies.
- 3.16 It was clear from feedback from potential investors and bidders that they were interested in buying GIB precisely because of its unique green specialism. The government's decision to repeal the statutory protections over the green purposes was taken only to ensure that GIB could be re-classified to the private sector following a sale. None of the bidders had expressed any reluctance to abide by GIB's green purposes post-sale, given that all intended for GIB to continue to conduct green investment.
- 3.17 However, to provide reassurance to Parliament and stakeholders, 'special share' arrangements were put in place as an additional measure to safeguard GIB's green values. Further detail is set out below.
- 3.18 In addition to the special share arrangements, the government asked bidders to confirm their commitment to GIB's green values and investment principles and to set out how they proposed to protect them.

¹⁷ See the ONS website

<https://www.ons.gov.uk/methodology/classificationsandstandards/economicstatisticsclassifications/introductiontoeconomicstatisticsclassifications>

- 3.19 Macquarie made these commitments at each and every stage of the sale process and, as such, their offer for GIB met this objective. Macquarie have also made a number of additional commitments to the future of GIB, which are set out in the next section, including details on how those commitments have been delivered since completion of the sale.
- 3.20 The government therefore considers that the objective to maintain GIB's green values has been, and will continue to be, met.

Special share

- 3.21 The government announced in February 2016 that a special share would be put in place as part of the sale of GIB, to safeguard the green purposes of the company. GIB and the government made the necessary arrangements to create the special share during the sale process, and there was an independent process to select the holders of the special share. The special share was issued in August 2017 on completion of the GIB sale to Macquarie.
- 3.22 The special share is held by the Green Purposes Company (GPC), a not for profit company limited by guarantee. The GPC has five directors, or trustees, who are independent of both government and GIB. They were selected by an independent nominations committee which comprised representatives from the Law Society of Scotland, the Royal Society, and the Institute of Chartered Accountants of Scotland.
- 3.23 The five trustees were appointed in October 2016 and formally took up their roles in August 2017, on completion of the sale of GIB. They are:
- Tushita Ranchan (chair), an internationally experienced financier, investor and executive with experience of serving on private and not-for-profit sector boards
 - James Curran, chair of the James Hutton Institute and also Climate Ready Clyde, and previously chief executive of the Scottish Environment Protection Agency
 - Trevor Hutchings, Director of Strategy at Gemserv, an energy markets and environmental services company, who has previously been a civil servant and director of advocacy at WWF
 - Robin (Lord) Teverson, a Liberal Democrat peer in the House of Lords, who currently chairs the House of Lords EU sub-committee on Energy and the Environment
 - Peter Young, an individual member of Aldersgate Group, having been a founding director and chair, who is also a trustee and council member of The Wildlife Trusts
- 3.24 The powers of the special share relate to the green purposes, which are set out in GIB's articles of association. Should a change ever be proposed to the

green purposes, the approval of the GPC is required. The GPC's role with GIB applies to all GIB's wholly-owned subsidiaries.

- 3.25 Further information on the GPC, their powers and role, and the individual trustees, can be found on their website www.greenpurposescompany.com.

4. Future of the Green Investment Bank

- 4.1 This section sets out commitments made to the future of GIB by Macquarie, and details of the Government's future role and interest in GIB and its associated companies.

Commitments from the buyer

- 4.2 The government asked bidders to confirm their commitment to GIB's green values and investment principles and to set out how they proposed to protect them, as part of the sale process.
- 4.3 Macquarie's successful bid for GIB made a number of commitments (see box) to the GIB business and its green values, reflecting the importance that the Macquarie consortium placed on GIB's expertise and its track record of being both green and profitable. These commitments have been published by Macquarie in their announcements on signing¹⁸ and completion¹⁹ of the sale of GIB.

Macquarie's commitments to GIB

- Under Macquarie's ownership, GIB will remain one of the leading investors in green infrastructure in the UK and Europe, with added scope to expand internationally
- Macquarie will adopt GIB as its primary vehicle for principal investment in green projects in the UK and Europe
- Macquarie will consolidate its existing UK and European principal investments into GIB
- GIB will target £3 billion of new investment in green infrastructure projects over the next three years
- The business will continue to operate from offices in Edinburgh and London, with one of Europe's largest teams of green energy investment specialists
- GIB will continue to work within its established green purposes and the special share arrangements, and will continue to invest in line with its green investment principles
- GIB will target investment in both established and emerging technologies, in both equity and debt, and at all project stages – development, construction and operation
- GIB will continue to publish an annual report including details of its green performance, and hold an annual industry event for stakeholders

¹⁸ <https://www.macquarie.com/us/about/newsroom/2017/macquarie-led-consortium-to-acquire-the-green-investment-bank>

¹⁹ <https://www.macquarie.com/us/about/newsroom/2017/green-investment-bank>

- 4.4 The government welcomes the breadth of commitments made by Macquarie to the future of GIB under its ownership, which provides further assurance that GIB will continue to play an important role in growing the green economy in the UK. The government is also fully supportive of GIB's and Macquarie's plan to expand its operations into Europe and internationally. To help this move, Macquarie announced on 18 August 2017 that GIB would operate under the name Green Investment Group to overcome legal and regulatory barriers to using the term "bank" in many international markets. This name change makes no difference to the businesses Articles or the provisions of the Special Share.
- 4.5 In the short time since the sale completed, the Green Investment Group has:
- Completed a number of investments:
 - A £38 million investment in the Ferry Bridge MultiFuel 2 project, a waste to energy facility in West Yorkshire²⁰
 - The first investment by UK Climate Investments, GIB's joint venture with BEIS²¹
 - GIB's first ever international investment - into onshore wind project in Sweden. The project is set to be Europe's largest single site onshore farm in Europe²²
 - Completed the move of London-based staff from Millbank to Macquarie's London offices
 - Published the 2016/17 annual report and accounts²³ which show how GIB continued to grow its green impact over the past year, and looks ahead to the company's future with Macquarie
 - Held two industry events for a broad range of stakeholders, in Edinburgh and London in early November, with over 300 attendees
 - Become a member of the government's Green Finance Taskforce, announced on 18 September 2017

The government's relationship with the Green Investment Group

- 4.6 Following the 100% sale of GIB to Macquarie, the government holds no share capital in the Green Investment Group. The government has retained an interest in a small number of existing GIB investments, which are held in a separate company - the UK Green Infrastructure Platform. Further details are set out in the following section.

²⁰ <http://greeninvestmentgroup.com/news-and-insights/2017/green-investment-group-announces-new-38-million-debt-facility-for-ferrybridge-multifuel-2/>

²¹ <http://greeninvestmentgroup.com/news-and-insights/2017/uk-climate-investments-and-lightsource-establish-india-solar-partnership/>

²² <http://greeninvestmentgroup.com/news-and-insights/2017/ge-and-green-investment-group-to-deliver-650-mw-of-onshore-wind-to-sweden/>

²³ <http://greeninvestmentgroup.com/corporate-governance/governance-documents/annual-reports/>

- 4.7 The government and the Green Investment Group will continue to work closely together through the UK Climate Investments (UKCI)²⁴ joint venture, which aims to help the world's developing economies adapt to climate change and promote cleaner, greener growth. The government welcomes Macquarie's commitment to UKCI and the opportunities for successful collaboration using Macquarie's global reach.
- 4.8 The Green Investment Group has played, and will continue to play, an important role as a key investor in the UK's low carbon economy. The government looks forward to a continued relationship with the Green Investment Group, and with Macquarie, working together on green finance and decarbonisation, to realise the commitments set out in the Paris Agreement.
- 4.9 Since completion of the sale in August 2017, the government has announced that the Green Investment Group will form part of the government's Green Finance Taskforce, which brings together senior leaders from the financial sector, as well as academics and sustainability experts, and will work with industry to accelerate the growth of green finance.

UK Green Infrastructure Platform

- 4.10 The UK Green Infrastructure Platform (UKGIP) – a private limited company - was established to enable Government to retain an interest in five existing GIB investments. These investments are:
- An equity investment in a waste wood facility being built in the port of Tilbury
 - A debt investment in an energy from waste project in Derbyshire
 - Three fund investments, two of which have invested in non-domestic energy efficiency projects and one of which has invested in waste and bio-energy projects
- 4.11 The retention of these investments in UKGIP was negotiated between the government and Macquarie as part of the wider GIB transaction, to ensure that taxpayers received the best value for money from the sale. These investments were valued at a discount by the Macquarie consortium, whereas the government is satisfied that these can be realised separately in a way which returns better value for taxpayers' money.
- 4.12 Immediately after the sale of GIB, the BEIS Secretary of State purchased 90% of the shares in UKGIP. The purchase cost was £132 million. The Green Investment Group is the remaining 10% shareholder. The primary

²⁴ UKCI is a joint venture between the Department for Business, Energy and Industrial Strategy (BEIS) and the Green Investment Group: <http://greeninvestmentgroup.com/funds/international/>

purpose of UKGIP is to hold these investments and identify opportunities to realise them in a way which returns best value for taxpayers' money.

- 4.13 The Board of UKGIP comprises four directors appointed by the Secretary of State for BEIS and one director appointed by the Green Investment Group. Further details on the company, including its current directors - and in due course its annual report and accounts - can be found on the Companies House website²⁵. On a day to day basis, the investments held by UKGIP will continue to be managed by the Green Investment Group.

²⁵ <https://beta.companieshouse.gov.uk/company/10669600>

5. Conclusion

- 5.1 The government established GIB to demonstrate that investments can be both green and profitable. GIB proved this during its time in the public sector, investing alongside commercial investors to make a return, and by directly bringing to market new private investors who had never invested in the green sector before.
- 5.2 The government's sale of the GIB further proves that green investment is now becoming increasingly mainstream, with investors interested in green investment institutions themselves. The UK led the way in establishing the world's first dedicated green bank, and is leading the way again in proving that such institutions can be moved to the private sector successfully once established whilst maintaining their leading position in the green investment market.
- 5.3 The new owner of GIB, Macquarie, has clearly and publicly stated its ambition to continue and increase its track record of investing in innovative green projects, applying GIB's skill set and investment capability across the UK, Europe and beyond, to tackle the truly international problem of global warming. Government considers that the Green Investment Group has a strong future with its new owners, and looks forward to seeing what it can achieve in the years to come.

Annex 1 – Further Reading

Government Policy Paper on the future of the Green Investment Bank, November 2015:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/477493/BIS-15-630-future-of-the-uk-green-investment-bank.pdf

Government response to the findings of the Environmental Audit Committee, February 2016

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/497366/53927-cm_9201-print-ready.pdf

Government Policy Paper on the sale of shares in the Green Investment Bank, March 2016:

<https://www.gov.uk/government/publications/green-investment-bank-sale-of-shares>

Government statement on the sale of the Green Investment Bank, April 2017:

<https://www.gov.uk/government/speeches/sale-of-green-investment-bank>

Government statement on the completion of the Green Investment Bank sale, August 2017:

<https://www.gov.uk/government/news/uk-governments-sale-of-green-investment-bank-completed>

Annex 2 - Summary of Adviser Costs

Adviser	Preparation work (to March 16)	Sale Execution (Launch to Completion)	Success Fee (on completion)	Total
Financial adviser (BAML) ²⁶	£0.125m	£0.173m	£1.100m	£1.398m
Legal adviser (HSF)	£0.150m	£2.205m	-	£2.355m
State aid legal adviser (Slaughter & May)	£0.128m	£0.101m	-	£0.229m
Independent valuation adviser (EY)	-	£0.503m	-	£0.503m
Legal support on litigation	-	£0.095m	-	£0.095m
Total Advisor Costs	£0.403m	£3.077m	£1.100m	£4.580m
Additional transaction leakage costs ²⁷	-	-	£0.239m	£0.239m
Total	£0.403m	£3.077m	£1.339m	£4.819m

The total fees and transaction related costs of £4.819 million represent 0.2% of the £2.3 billion transaction value.

In addition to the above costs incurred by government, there are costs that were incurred by GIB to support the sale preparation. GIB costs relate to financial, legal and due diligence providers to the GIB and its Board, together with costs to establish the Green Purposes Company. GIB's costs have been borne by Macquarie.

²⁶ All BAML fees were fixed fees (not based on daily or hourly rates)

²⁷ This includes costs relating to UK Green Infrastructure Platform and the Green Purposes Company

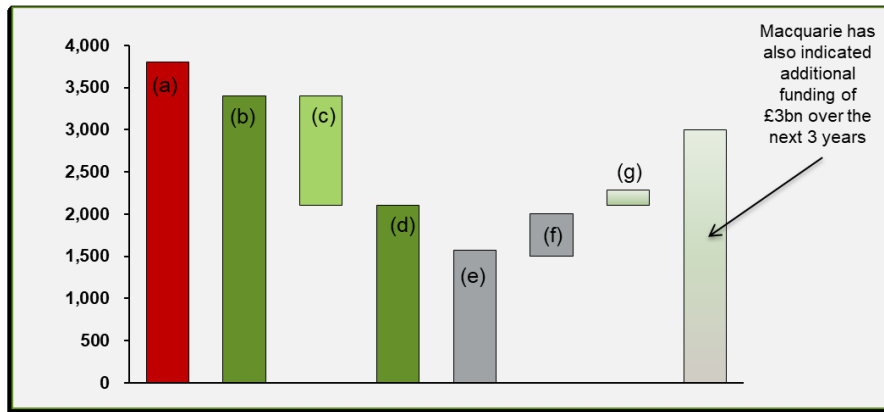
Annex 3 – Reconciliation of GIB sale proceeds to government funding provided (as at completion in August)

a. £3.8bn was the capital allocation initially made available to GIB from HMG (this allocation expired on 31-3-16)

b. GIB has committed c. £3.4bn of gross capital

c. Deductions of c. £1.3bn are made to reflect asset sales (into the OSW Fund) and asset refinancing and asset purchases directly by the OSW Fund

d. So, GIB plc's net capital commitments were c. £2.1bn. This is a combination of deployed capital and commitments which were yet to be drawn down by projects



e. Of the net committed capital, c.£1.6bn equates to HMG's economic (equity) ownership of the business - HMG's stake in GIB has been bought by Macquarie, the new owners upon completion of the transaction

f. In addition, responsibility for funding GIB's existing undrawn funding commitments (of c.£0.5bn) will be assumed by Macquarie instead of HMG

g. Premium paid by Macquarie

Notes:

- £3.8bn HMG funding commitment to GIB expired on 31/3/2016. It was followed by a commitment in the 2015 Spending review to provide additional funding for GIB up to the point of a sale (and after if HMG remained a shareholder)
- GIB's undrawn capital commitments are attributed to debt and equity investments in construction assets which have not been drawn down by investors yet

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