

Environmental Audit Committee

Oral evidence: [Green Finance, HC 617](#)

Tuesday 23 January 2018

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Members present: Mary Creagh (Chair); Colin Clark; Glyn Davies; Mr Philip Dunne; Zac Goldsmith; Mr Robert Goodwill; Caroline Lucas; Dr Matthew Offord; Alex Sobel.

Questions 91-196

Witnesses

I: Lord Teverson, Trustee, Green Purposes Company and Peter Young, Trustee, Green Purposes Company.

II: Edward Northam, Head of the Green Investment Group.

Written evidence from witnesses:

- [Green Purposes Company](#)



Examination of witnesses

Witnesses: Lord Teverson and Peter Young.

Q91 **Chair:** We are starting our Committee absolutely on time, which I think is a new world record for us. I welcome you both to our panel today. Could you introduce yourselves for the record?

Lord Teverson: Robin Teverson. I am a trustee, director, of the Green Purposes Company and I am also a Member at the other end.

Peter Young: I am Peter Young. I am another trustee of the Green Purposes Company and I am also an environmentalist involved in a number of other not-for-profit activities.

Q92 **Chair:** Can you speak up a bit? The acoustics in here are terrible and the microphones are bad. I think the sound is okay. Thank you very much. I will start by asking you to explain to colleagues, to the Committee, how the special share and the Green Purposes Company works?

Lord Teverson: When the privatisation of the Green Investment Bank took place, Parliament generally was very keen that the new owner of the Green Investment Bank should still have to keep the company's objectives roughly as they were. When the privatisation took place there was a green or golden type share that was awarded to the Green Purposes Company that means that we have to be consulted and we have actual decisions or a veto over the five green purposes of the Green Investment Bank being changed. That is our one mandatory-type power. It is slightly like a nuclear button. We were selected as trustees by an independent body that was put together, independent of Government, independent of the bank itself. Five trustees were recruited and we took over our duties at the point of privatisation.

That is our fundamental role. We could do broader things if we wanted to but clearly we are concentrating on our responsibilities for the Green Investment Bank and the Green Investment Group, as it is now transformed to some degree.

Q93 **Chair:** How often have the trustees met?

Peter Young: The first thing that is probably worth saying is that we had an extensive period of shadow operation, which was quite important. We were appointed in autumn 2016 and during that time we were in contact with one another pretty well on a weekly basis as we worked out exactly how we would operate. We had regular discussions with the then Green Investment Bank about setting ourselves up and how we would communicate and operate with them. We are now in our operational mode and we will contact one another quite regularly by e-mail but we have a telephone conference every month as a default and we envisage that kind of frequency going forward. We meet face to face at least



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quarterly but, as I say, we do a lot of things in the modern world by communicating by phone, e-mail and so on.

Q94 **Chair:** You meet three times a year?

Peter Young: Four times a year.

Q95 **Chair:** Four times a year. Thank you. You both said, “We could do other things”. Do you see your role as wider than oversight of the special share?

Lord Teverson: We see it as wider within the Green Investment Bank in that we feel we have a moral and ethical duty to look more broadly than just whether we would approve or not a change in the constitution of the company. We are very aware that we do not have any statutory powers in that area. We are not on the investment committee. We are not qualified to be on any investment committee for individual investments. We take a much broader interest in the affairs and the investments of the company, but in the longer term it was envisaged by those who set up the constitution of the company that it could technically do a similar role for other organisations if they so wished. The trustees are unremunerated, which is correct and the way we expect it to be, but we would not have that capacity and we think that this is the prime task of the organisation at the moment.

Q96 **Chair:** Can you say what resources and powers you have to support your work?

Peter Young: We have agreed financing. That financing, to be clear, does come from the Green Investment Group. We do not see that as a problem as long as it is properly underpinned. It is fairly standard practice now for a regulator—and in a way we are a quasi regulator—to be funded from those that are regulated by that regulator. We have that funding in place for our first five years and then a legal basis for that to go on in perpetuity as far as it is needed. That funding is there to enable us to procure the advice that we need from professionals so that we can form the right conclusions and opinions that we need to.

You asked about the activities that we do. It is very much a nuclear button and, as always with nuclear deterrents, you do not want to even get there. You want to be doing a lot of work before that and have a lot of dialogue and influence before that. That is where we see most of our activity taking place. It is a continual dialogue about not only what the Green Investment Group is doing in terms of its investments, looking at the green credentials and the way it reports them. One of the key things that we have agreed to do is to provide a letter that will appear in the annual report of the Green Investment Bank. It will be an independent letter that we will place there that effectively puts on record what our view is. It is rather like an auditor’s report but from the Green Purposes Company point of view.

Q97 **Chair:** What is the budget that you have access to?



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Peter Young: It is a flexible budget, according to what we need to pay. We are not able to disclose that at the moment, although the Green Investment Group could choose to do so.

Q98 **Chair:** Why are you not able to disclose it?

Peter Young: It is within the legal agreement that we have with the Green Investment Group.

Lord Teverson: We are confident we have sufficient funds in order to do our job.

Q99 **Chair:** Do you have any staff?

Lord Teverson: No, we don't. We contract out work for the accountancy of expenses and all of that sort of side. We intend to use consultants every now and again to assist us in assessing the work of the bank. We do not have any staff but we would bring in resources when we need them to fulfil our functions.

Q100 **Chair:** You are not allowed to tell us the sum. It sounds like it is quite a small budget in bank terms.

Lord Teverson: It is very sufficient for what we want. The trustees do not have an issue over funding.

Peter Young: Yes, we do not have any concern over it.

Q101 **Chair:** But you are completely dependent on their co-operation for that resource? You said there is a legal agreement.

Peter Young: We are happy that we have a very robust agreement and the work that I described between us being formed in shadow and coming into existence was all around getting that really solid. We believe we have funding to do what we need to do in perpetuity.

Q102 **Chair:** It is not just for the next five years but in perpetuity?

Peter Young: Yes.

Q103 **Chair:** Is it an explicit aim of yours to exist forever?

Peter Young: Our understanding is that we need to be there as long as we need to be, not personally but as the Green Purposes Company.

Q104 **Chair:** No, obviously. The Public Administration Committee has expressed concern in the past that conflicts of interest can arise when people in public oversight roles such as yours are offered positions in the private sector. Can you talk us through the governance mechanisms that you have adopted at your company to prevent that taking place? Have you commissioned any work from any of your trustees, for example?

Peter Young: No, we haven't, just to answer that one. As we have described, if we need work done that will be done by other people who we procure in an open and competitive way. In terms of our governance



structure, we have quite an extensive set of articles that are available for those who are interested. Deep within that is quite a substantial section on conflicts of interest. Those relate to any interest that trustees could have, directly or indirectly, in both the investments that GIG is making as well as directly within the company.

Q105 Mr Robert Goodwill: Is there a cooling-off period so that trustees can't be, say, appointed to the bank itself within a certain period, something that Ministers have when they finish their roles?

Peter Young: From the way that the articles were drafted at the time, our understanding is that was looked at. There is not such a clause in there. My understanding is—and I am not a lawyer—that because we are unremunerated that is not something that is easy to do. I think if you are in remunerated position you can put a cooling-off period or whatever in there and that is entirely legitimate. If you are unremunerated I believe that you can't prevent someone going into employment. I would like to immediately advert it is something the trustees have discussed and we can't really envisage that scenario arising for ourselves but, of course, there might be different trustees in the future.

Q106 Glyn Davies: Can we start by you telling us how you think things are going? It is pretty early days but just in general how do you think things are going? There has been five months of the Green Investment Group; what is your interim judgment?

Peter Young: I think there is two ways of looking at that. There is the internal relationship that we have: are we getting the information we would expect to see; do we have the attention of the GIG and its senior management when we want to have dialogue; are we seeing the detail of the green assessments they are doing and do we think those are adequate and thorough? On that, I can say yes, we are pretty happy with the assessment process it has gone through, the actual investments that have been made and the way in which they have been evaluated by the GIG. We will publicly talk about that when we do the annual letter that I mentioned, but that is where we are at the moment.

On the second part of that, where are we with investments and investment flows, I think it is too early to say quite what is going on and whether or not there is the adequate flow of investable projects for the Green Investment Group to achieve the kind of targets it wants. How distracting was the very elongated sale process? It was an 18-month process. I have worked previously in the commercial world and when you are being taken over is not a good time. It is not easy to keep your focus on the core business, so I imagine that has had some impact and we are waiting to see what that is. We are waiting to see what the wider policy environment and things are, but at the moment I think we can't really extrapolate from the first five months to say how it is going: are there enough projects; is it increasing? We are very happy with the information we are getting on the internal side.



Lord Teverson: In terms of the relationship, it would be possible for the Green Investment Group to say to the Green Purposes Company, "That is your role. You have a veto over changing our constitution, otherwise go away and we will talk to you if we ever want to change that". That could be a scenario but they have been very much engaged with us, which we have welcomed. It has been positive from that point of view.

Q107 **Glyn Davies:** Were you expecting the level of transactions, the level of investments to increase? It looks pretty modest to me, up until now. There are reasons for that, which you have just outlined. Would you expect them to accelerate, increase in the next 12 months?

Lord Teverson: I would certainly hope so. Given the transition needs that there are from the Paris agreement and everything else in the Government's own strategy, I would hope there will be those additional opportunities. But at the moment, yes, it looks slow.

Q108 **Glyn Davies:** There have been only four major investments but only one of those in the UK. I am not hugely knowledgeable about it but that came as a surprise to me. I would have expected the focus to be very much on the UK. Is that the sort of pattern you think we are going to expect of investments all over the world? Is that a good thing or a bad thing or do you think it should perhaps change and be focused more on the UK?

Lord Teverson: I think there is no doubt that the major global opportunities for green investment are going to be in Asia more than they are in Europe and North America at the moment. We, as an organisation, would be quite disappointed if there was not a similar level of investment in the UK over time as there had been historically. We publicly very much welcome the international role of Green Investment Bank and we hope it is successful internationally but we would also hope that it is able to keep its level of investment in the UK at similar levels to those in the past.

Q109 **Glyn Davies:** I am not asking you to help us with developing Government policy here big time. Even if a lot of the targets of Government are met, we are not going to meet the climate change targets and the Committee on Climate Change is making it quite public that we are not planning to meet them at the moment. What advice are you going to give to Government on what they should do, how they should change, what new policy they should adopt in order to get back on track and meet their climate change targets? I know it is a pretty big and broad question.

Lord Teverson: Well, maybe I leave that to Peter. I might come out with a too political answer.

Peter Young: Sticking with our narrow remit, what we will aim to do, through our public statements about how the Green Investment Group is investing, is try to illuminate the reasons for why it is investing the way it is and let people draw conclusions about policy. For example, if we are concluding that there are very few projects for low carbon investment in the UK that is clearly a policy shortfall. One of our roles is to be able to



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illuminate that and possibly do that in a way, from our independent position, that the Green Investment Group might not be able to do. A de facto situation where they are struggling to find investments means that they will not be meeting our hope, and I am sure most people's expectations, about the level of UK investment.

In a wider sense, all I would say is that it is our intention and we believe to fulfil our role we have to be very connected with this agenda and if people want to come and ask our opinions we will be more happy to give those. But I think sticking with our formal role and what we have with the golden share is making sure that the investments the Green Investment Group make are properly green and they are not greenwashed or in any way travelling off that purpose over time and to illuminate, as far as we can with the privileged information we do get—because we do get sight of more information in our role than others—what that means for how policy is working for areas.

We recognise there are five green purposes within the bank, as you may well be familiar with. The reduction of greenhouse gas emissions and contributing to the advancement of efficiency in the use of natural resources are the principal ones against which investments have taken place. There are other purposes of enhancing and protecting the natural environment, enhancing and protecting biodiversity and promoting environmental sustainability. It is certainly a hope from our point of view that we will see its investments making more of a positive contribution in that way but that can only happen if there are markets that a commercial operation, however good intentioned, can make. I think one thing that is very clear is that within biodiversity and the natural environment in terms of the Government's aspirations and things about the 25-year plan, without further, much more tangible policies there is not any investment market in those areas at the moment. In that sense, we do see a policy shortfall. I will leave it there.

Q110 Caroline Lucas: The original mandate of the Green Investment Bank was to try to adjust the market failures that were limiting private investment into carbon reduction. Do you think those market failures still exist?

Peter Young: I personally do, yes. I have just indicated one area where I think they exist.

Q111 Caroline Lucas: If that is the case, what role do you have, if any, in making sure that the Green Investment Group is focusing on the areas that otherwise would not be attracting private investment? What worries me about where I have seen the investment going so far is that it does not seem to be in new technologies or very high in risk, which is where the original GIB was focused.

Peter Young: I think this is also where we have to be clear there there is a slight game change here because it has been privatised and the GIG is no longer connected to Government policy. In those high risk areas the



risk is principally in policy change and what is underpinning. We will be doing all we can to encourage and facilitate. We see things like the stakeholder days that the Green Investment Group is still committed to having every year as opportunities to encourage the development of that kind of thing. It is also for Government to think about whether there are gaps that are going to appear. In any organisation, however constructed and whatever purposes are set to it, its investment committees and things will have to take a decision on the basis of an investable project. If no investable projects can be brought forward, that is something that needs to be done in collaboration with policies that help address those market failures.

Lord Teverson: Over time the Green Investment Group, once it has got used to this market as it is—and I think realistically it has to show a track record, a bit like the GIB did under public ownership where it did not do radical things either, to be honest—I think we would hope it would increase its risk appetite as its specialist knowledge was there and maybe was able to move into more earlier stage areas of investment. That is our hope. I don't know whether it will do that or not but certainly it should, with its expertise, start to have the commercial edge where it can make better risk appetite decisions than other organisations. One of the challenges as green investment becomes more mainstream is does GIB just become an ordinary organisation in finance where the rest of the sector catches up. Its challenge is to keep its market advantage and hopefully that is what its management will do, but that is one of the areas we will be looking at.

Q112 **Zac Goldsmith:** It is obviously very worrying if you believe there is a policy shortfall that is reducing the number of opportunities to invest in the UK. The notes we have here tell us that the overall number of projects globally in which the bank has invested and the total transaction value of those projects has reduced. Can you clarify what it is that has caused that contraction globally? Clearly it is not a UK policy shortfall; it must be something else.

Peter Young: There are two things there, so if I can come back and unpick. Are you talking about the actual flow of investment to green projects globally or are you talking about the flow of projects that GIG is investing in versus GIB? Which of those are you talking about?

Zac Goldsmith: I am talking about the number of projects invested in by the bank.

Peter Young: By the bank, okay. If we look at what the bank is doing, it is what I referred to earlier. It is not good maintaining a pipeline during an 18-month sale process. I am convinced that has had some impact on what they have now. I would expect with Macquarie's experience and global reach that that will be reversed and we should see an acceleration of the investment rate compared to what we have seen in the past.

Q113 **Zac Goldsmith:** Does that not also explain the contraction in the number



of investment opportunities here in the UK? I am not pushing back on your argument that there is a policy shortfall. Our job, as the Committee, is to identify if there is a shortfall and come out with recommendations. I am trying to understand why the policy shortfall is the reason given for the reduction in investments in the UK whereas it is the sales process that is being blamed for the contraction in investment opportunities globally. Why the different explanations?

Peter Young: From my point of view, the policy shortfall comes from two areas. One I was trying to illuminate is that the spread of the projects is quite narrow at the moment compared with what you might expect across the whole of the green investment regime. My interpretation is that there is a policy shortfall in the fact that there is not a wider spread available. The second issue about the policy side is the policies that we have seen in other reports, things like Bloomberg's analysis, where we have seen a further reduction that in the UK is faster than the European reduction in investment. I am looking at that wider market issue, saying that to me it does not look like a good sign to see that reduction in investment down to I think about \$10 billion per year when we know from the Committee on Climate Change we probably need more than like £20 billion a year to keep ourselves on track with the Committee on Climate Change budgets.

Lord Teverson: One of the major investments that has taken place is Scandinavian onshore and the onshore market in England is zero because of policy decisions, with the number of offshore auctions maybe rationed. It seems to me there is an opportunity, with the decline that we have had in pricing or costs of those technologies, that hopefully they become less and less dependent on government policy and become commercially viable in their own right and maybe the Green Investment Bank can be ahead of the curve on that with generators.

Q114 **Dr Matthew Offord:** Given that it has only been five months since the creation and establishment of Macquarie being part of the Green Investment Bank, I realise it is not possible to speak about a longer-term experience that you have had. You mentioned earlier about the five principles. What if Macquarie decided they wanted to change them slightly? You also mentioned that there are some areas they needed to go further on. What mechanisms do you have at your disposal to hold them to account?

Peter Young: We have described there are five purposes. I think that word is quite important to us because a purpose for us indicates a direction of objective within the corporate organisation. I guess that is where we are coming from. We are saying, "If those are the purposes, how are you facing that objective going forward?" We are looking at where that is happening already and where might that happen more. We have been clear that we have that nuclear button at the end, so if they did change those purposes we have to form a view and we say, "No, we don't think that is keeping precisely with the spirit and, therefore, we are



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going to vote against” and the effect of that on the company is pretty dramatic. That is not to be lightly done.

I would expect, and it is quite clear from dialogue we have had to date, that well before that would happen there would be a lot of discussion between us. Our objective, as always, would be to avoid getting into a conflict situation. These are quite widely-worded. I would be amazed if there would be a need to do that and so I think we would question very severely if that was the intention. With all the challenges that the bank has in identifying projects, assessing them and getting the investments underway, I would be amazed if they were putting any effort into it.

Q115 **Dr Matthew Offord:** You mentioned there are some areas that you want to see it go further on. How would you influence it to go further on those areas and what would they be?

Peter Young: We have regular meetings with senior staff and we have already opened up discussions about certain technologies, for example, are they transitional or are they long term, and also the way in which projects are evaluated. There are really two areas. One is in the area of encouraging where we see opportunities in the market for it to get engaged as early as possible, particularly where it is high risk, using basically its expertise to reduce that risk. It is up to it to decide where it invests and for it to make a good business case it is where its expertise perhaps allows it to operate somewhere that others find uncomfortable. That might apply to some of these purposes that at the moment are not primary ones for investment.

The second is in the quality of the delivery of the projects. As an investor, you do have quite a bit of influence and they have already explained to us how now and in the past the Green Investment Bank’s involvement can help focus the project developer to produce a better project from a green perspective. I believe that there are opportunities to do that as well and when we look at things like sustainability and the natural environment, these might be cobenefits from projects that may be driven fundamentally on a clean energy basis, for example. The way in which you deliver that clean energy project can be a way in which you are also enhancing the natural environment or demonstrating sustainability or it can be in a neutral way to those things. We would encourage it to move in its dialogue with project developers to an expectation where it is giving a net positive effect on those things rather than, as I would say at the moment, where generally it is neutral. They are not damaging and we would not expect the Green Investment Bank to be investing in damaging projects but we would expect it, perhaps, to encourage its developers to offer improvements rather than just a neutral effect.

Lord Teverson: One of the pledges that we have made publicly on our website and in our pronouncements is that we would never allow any change in the purposes of the Green Investment Company that made those less environmentally sustainable. Corporations and the world change, so they might become less useful as time goes on and they



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might need changing, but we would not ever endorse any change to make them less environmentally sustainable. That is our pledge.

Q116 Dr Matthew Offord: That is good to hear. You mentioned that you do not have day-to-day either responsibility or involvement in the decisions made by Macquarie through the Green Investment Bank. I understand that you are able to monitor its investments through an agreed information-sharing mechanism. What if that mechanism breaks down? This could be down to personalities rather than simply the organisational structure.

Peter Young: It is a little bit better than that, because that comes back to the work that we did before we came into existence. We have these agreements underpinning that, so we have ultimately legal redress if we feel that that information is not adequate for us to do our job. That information flow is quite generous. That is why some of this information has to stay out of the public domain because in order to have that access to commercial and confidential information we have to keep that agreement confidential. It is worth saying and putting on record that we believe that we are able to do our job better and with more effect as a result of that even though it means that the actual agreement is something that has to stay out of the public domain. If it was put into the public domain we would not be able to do our job as well because we would not have access to such sensitive information.

Q117 Chair: The NAO in its report on the privatisation of the GIB, said that, "Macquarie has made public but non-legally binding commitments for the first three years after the sale, including a commitment to the green objectives and the green principles". Are you saying that you have a legal agreement that is not public, that goes beyond those three years and is legally binding?

Peter Young: It does not address that issue but it does address—

Chair: Which issue doesn't it address?

Peter Young: It doesn't address the investments beyond three years.

Q118 Chair: But it is legally binding?

Peter Young: It does refer to the commitments that Macquarie has made publicly and it refers to the arrangement. It is a biparty agreement between the two organisations to ensure that we have access to the information that we believe we need in order to be able to take a full view on what they are doing.

Q119 Mr Philip Dunne: Is there any commitment by Macquarie to continue investing in the Green Investment Bank if once it is fully invested it is in current investment?

Lord Teverson: Probably you would have to ask them.



Peter Young: I don't think so but you should ask them. What I would say, is where does the comfort come? The comfort comes from the expertise that it has and that has not been mentioned. It is important to look at over time Macquarie, in its ownership, enhancing and deploying the expertise that the Green Investment Bank has accumulated, which is world class. It is probably world leading in terms of that. If you are a commercial organisation and you have that expertise it is just inconceivable that you would pay for that expertise and not use it. That is where we would see an early sign. If we saw a diminution of the quality and breadth of green expertise within the bank, that would be an early warning sign that maybe the commitment was not there to continue to expand the bank's activities.

Q120 **Colin Clark:** Looking into the future, would you envisage the Green Purposes Company still being around in five or 10 years' time? Is it an enduring institution? You have spoken about the longevity.

Lord Teverson: The share will be there. I have no idea how one would dispose of it, to be honest. Constitutionally it is there. If one went into full conspiracy mode I suspect that the company itself could be hollowed out, the investments moved elsewhere. I guess all of that scenario technically becomes possible, given the fact that it was bought by a much larger investment company. If it had been sold as a single entity that would be its purpose, but I would say two things. One is the green investment market is going to be huge into the future—I can't see that it is not. Therefore, exactly as Peter was saying, given its expertise, the market edge that it has at the moment, assuming that it manages to continue that commercially, I would have thought this is going to be the area of business to be in. The more it builds up the Green Investment Bank and that brand, if it does that successfully, the less likely it would want to throw that away. I would see it at least in that timescale but absolutely I would see it as enduring five to 10 years. Beyond that then who knows.

Q121 **Colin Clark:** There was a process followed when you were appointed. Will that same process be followed in five years' time when new trustees are appointed?

Peter Young: We don't know because we have not defined that. Just thinking about that, I suspect it will not be quite that process because nobody existed within the organisation, where at least we exist. But the one thing we have identified is that in early time we will carry out a very public, transparent process as to how we renew. We are also mindful of the fact that although our initial appointment is five years, it would be unwise for us all to disappear at one time and we would envisage some sort of staged and careful handover so there is not a loss of corporate knowledge.

Q122 **Chair:** What is your term? Your term is five years?

Peter Young: Five years, yes.

Q123 **Chair:** But there is nothing about extendable for three or whatever?



Good practice is normally eight years maximum for trustees in the corporate governance world, isn't it?

Peter Young: Yes, it is usually four plus four or three plus three, isn't it? I think the way we see it is more like that. We are unlikely to change in the immediate future but certainly we would set out how we intend to do that.

Q124 **Colin Clark:** You are clearly very engaged. Is the level of activity you have had to date sustainable, given that you are unpaid?

Lord Teverson: I put down the original parliamentary amendment that was passed by the Lords, because I am a trustee of an organisation called Regen Southwest, from which we got the model for this. That particular role hardly takes up any of my time whatsoever. It is just to make sure that the dark side does not take over that particular organisation. I have been astonished by the amount of time this process has taken, because GIB has been very involved with us. Since the sale has taken place and we are clear on our own role and what we need to do over the next one, two, three years, we are trying to reduce the amount of work we do to just bring it down to being able to do effectively what we do. Hopefully, it gets manageable at that point and we do not see any reason why we should change the remuneration side or anything like that, given the responsibilities we have at the moment, but we have to make them manageable. We are hoping to undertake some work with consultants. We are going out to not public tender but multiple tender over some work at the moment and that is how we intend to deal with some of the peaks in the future.

Colin Clark: You will spread the load.

Lord Teverson: Yes.

Q125 **Colin Clark:** One concern raised at the time of the sale was that the Green Investment Group assets could be sold off or repurposed into different companies and that GIG would, de facto, cease to exist. You have spoken about this already. Is that a serious concern?

Peter Young: For me, no. I can't see it. Commercially it does not make any sense. The other thing I would say about that selling-off process is that we are also very keen to have dialogue, as and when that happens, to ensure that we can help to put into the public domain a clear understanding of what is going on, because the recycling of capital is definitely an important point. One of the things that we think is enhanced, potentially, with the Green Investment Group, compared with publicly-owned, is its ability to take early stage risks and to be involved in project development stage and project build stage. Normally for finance to do that it will need to be recycled because that is where that capital sits and once you get into an operational phase you need to sell that off and use that money to put into new projects. I think that is a topic that I can see coming up and part of our role will be to make sure that it is not misunderstood or misrepresented and is looked at as the facts show.



Chair: Very good. Thank you very much indeed. We will close the panel. Thank you both very much indeed for your attendance.

Examination of witnesses

Witness: Edward Northam.

Q126 **Chair:** I am delighted to open our second panel. For the purposes of Hansard, could you introduce yourself, please?

Edward Northam: My name is Edward Northam. I am the Head of the Green Investment Group, having been one of the original employees of the Green Investment Bank.

Q127 **Chair:** Thank you very much for being with us here today. I am going to kick off with a few questions. Can you start by telling us why the number of Green Investment Group investments fell in 2017?

Edward Northam: There are a number of contributing factors to that. It probably starts with the fact that we were, for the 18 months prior to August 2017, under a sales process, a privatisation process. While we were particularly focused on ensuring we could continue business as usual, the reality is that that does put pressure on business as usual activities. Our role here is to invest in long-term green infrastructure assets. That informs forming deep partnerships with people in that industry. The challenge when you are under a change of ownership is that prospective partners need to take a view on who their future partner may be, given the change of ownership, so undoubtedly that had an impact. The question is also relevant to not only the number of investments but the size and scale of those investments. It is not a simple matter of saying you made only eight or 10 investments. If that was to deliver green infrastructure of a larger scale and, therefore, larger capital commitments, that is also relevant to the question.

Q128 **Chair:** You are saying that the 18-month sale process contributed to that. Did that mean that there were staff leaving? Did that mean that people were not focused? How did it impact?

Edward Northam: In my opinion, we did a really good job of trying to keep staff motivation levels and keep a team together. Inevitably you have staff turnover. You have staff turnover in a business in any event in a large—

Q129 **Chair:** What was your position with the investment bank?

Edward Northam: I was running the investment function of the bank. I think we did a really good job there, but the reality is the market has a view on what is going to happen through this process. We all know it was a fairly public process, played out in the press, so it was not a transaction that market participants were unaware of. It is less about the businesses and our response and perhaps more about the market response. There are other contributing factors. We can invest in projects that are there, we helped create them, but we need the underlying project pipeline in



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order to engage and take those opportunities forward. There are market conditions and considerations in relation to our sales process. It is a combination of factors.

Q130 **Chair:** Let's just focus on those market conditions. Bloomberg New Energy Finance appeared in front of us last week and after our hearing they released information showing that clean energy investment in the UK had fallen by 56% last year. That is the wider environment in which you are operating. That is the biggest fall of any country and it means that clean energy in the UK is now the lowest it has been since 2008, so the lowest for nearly 10 years. That is measured in dollars not pounds because there is the devaluation that slightly disguises when you look at the pound number. What is your assessment of what is happening to the UK's clean energy investment landscape right now?

Edward Northam: I saw that report. You have to put all of these things into context because there are a number of things going on. First, investment in absolute terms has fallen across Europe as a whole, so not just in the UK although you have quoted the UK figures there.

Q131 **Zac Goldsmith:** Can I just clarify, investment in green energy?

Edward Northam: Investment in green energy across Europe has fallen through the period. This is not a UK-specific issue, is my first point.

Chair: The fall is biggest in the UK.

Edward Northam: There are other factors that contribute to that. We have seen an enormous uptake in delivering new green infrastructure but the reality is that the projects and the numbers that contribute to that statistic are still relatively modest and they are, therefore, distorted by the movement of one or two large offshore windfarms, for example. If you look at the 2016 numbers where in the UK we committed to what I think is the world's largest renewable energy project—the Hornsea offshore windfarm—that is going to distort the figures and then next year we do not contribute to a Hornsea-like project and you are potentially going to see a fall in those numbers. That is the other sort of contributing factor.

I think undeniably, when you look at the technologies that are contributing to that reduction, you see the biggest falls in solar, and we know the Government changed their policy on subsidy support for solar so that is going to impact on future commitments, and the same comments apply to onshore wind.

Q132 **Chair:** The solar thing happened in 2012. The change to FiTs happened in 2012 and yet investment rose steadily up to 26 billion in 2015, so that does not explain it for me. The investment dropping from \$23 billion a year to \$10 billion is not explained by one offshore windfarm.

Edward Northam: The last significant contributing factor to all of these things is that we have significant cost reduction in the underlying



technologies, so it is not as simple as saying we are seeing a reduction in investment, therefore a reduction in capacity. In actual fact, we are getting more pound for pound or dollar for dollar out of our investment because we have seen a 50% reduction in installation costs in some of these technologies.

Q133 Chair: Are you saying that the number of investments is remaining the same or possibly growing; it is just it is all cheaper at the moment?

Edward Northam: Unfortunately I don't have today reliable data on capacity installations for 2017 that I can quote with confidence, but I am extremely confident that as we collect that data it will show that capacity installations are either the same or, to the extent there is a reduction, it will be nowhere near as significant as the 56% reduction you have quoted for capital commitments. This is a good news story. In summary, it says we are getting more for less. The challenge that we had within the industry was to get costs down and I think we have embraced that challenge. We would never say that the job is done but we are certainly heading on the right path.

Q134 Chair: We still have a policy gap and a carbon budget gap, so we still have a financial gap that needs to be filled if we are going to decarbonise at the lowest possible rate, don't we? What do you think the Government could be doing to ensure clean energy investment in the UK does not continue to stall?

Edward Northam: We welcome the Clean Growth Strategy and the Government's objectives and plans that have been set out in that. We particularly welcome the focus on energy efficiency and energy independence. That is an area that we have been particularly focused on for a number of years. It is a challenging area, so putting more policy support behind that initiative is extremely valuable. We also welcome the focus on low carbon heat and low carbon transport. They are newer areas for us to focus on as an organisation but we stand ready to contribute and participate in the financing of that.

The last thing that I think is particularly important, and again a focus of the Clean Growth Strategy, is establishing the UK as a centre of excellence for green finance. We think we represent a pretty good case study in that and I personally have participated in a couple of delegations alongside the Chancellor, telling our story as evidence of that position for the UK to governments around the world.

Q135 Mr Robert Goodwill: I am guessing if I want to put a new boiler in my kitchen I would not come to you for finance, but what is the smallest type of project that you would look at? A lot of these are very big projects like windfarms, but where is the cut-off point that you would see as not being in your remit?

Edward Northam: We don't have a hard and fast cut-off number but undoubtedly we are looking for projects that are in the tens of millions of capital commitment rather than the hundreds of thousands. However,



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what we do look at is the opportunity to create a platform that you can roll smaller projects into if we can see the potential. We recently launched an energy solutions business. The capital commitments on an individual basis for those sorts of initiatives will be at the smaller end but when we look at the scale of the opportunity we can see sufficient scale to support our engagement in that sector or that opportunity.

Q136 **Chair:** You are not really involved in meso-level financing? You have no locus for all of the local authorities that need to invest in energy efficient homes? What happens with them?

Edward Northam: We do support local authority financing of initiatives. In particular we have been focused in supporting them on their transition to LED street lighting, not down at the individual residential sort of level.

Q137 **Chair:** Is that through GFI?

Edward Northam: No, it is not. That is a specific financial product that we have structured alongside and working with local authorities to make it fit their financing profiles.

Q138 **Zac Goldsmith:** Those kinds of deals with local authorities presumably would not be in the tens of millions?

Edward Northam: I think the smallest street lighting deals—and I am going from memory here—is probably 7 million or 8 million, so a little bit smaller. But often that is phase 1 financing where we are looking at an initial phase of the street lighting conversion with the expectation that if that is successfully delivered we would look to help finance phase 2 and beyond.

Chair: We will come back to some of this detail in later questions.

Q139 **Zac Goldsmith:** Are we moving away from the point that Robert just made? I would not mind following up on that—the smaller investments—but I do not want to trample on anyone else's territory.

Chair: You can go on that.

Zac Goldsmith: I just question why that decision has been taken. If you look at the 25-year plan, for example—and I accept that it would have been better if there had been more meat on the bone—the shift away from unbiodegradable or unrecyclable plastic waste is a huge transition that we are going to be part of in this country. You would have thought that that required slightly riskier but smaller scale investments. If you are not doing that, I wonder who is. Who else is in that field? Who is there providing the same kind of terms that you are providing but on a smaller scale?

Edward Northam: I think that market is being increasingly intermediated by smaller-scale fund managers, people who have identified the very gap that you are highlighting and said, "That feels like a business proposition to me", in between the Green Investment Group and the other sort of wholesale investors that are looking at larger-scale



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opportunities and the truly retail end of the market. It is the smaller-scale fund managers who can aggregate capital through various means to focus in on that market.

Q140 **Zac Goldsmith:** Has there been a shift since privatisation? Was there a bigger emphasis on those smaller-scale investments pre privatisation than is the case now or is it a steady policy?

Edward Northam: I think there has been no fundamental shift in focus. In fact, quite the opposite. Since privatisation we have been given a broader mandate and remit. That is reflected in the fact that we have launched four new business lines since privatisation, we are looking at a broader range of technologies to support, we are looking at a broader geographic remit—and no doubt there will be a question about that and why that makes sense and I look forward to responding to that because I have a view on that—and we are getting involved at an earlier stage in projects to help make them happen.

Q141 **Zac Goldsmith:** I am going to go back to a question that was put to the previous panel, that only one of the four projects that has been announced is in the UK. Can you give me your take on that?

Edward Northam: This is a very short timeframe that we are looking at. It is five months since we were privatised on the back end of a long and exhausting privatisation process. The total capital that we have mobilised into those deals is in excess of £1 billion. That is not an insignificant sum of capital in a very short timeframe. It is a short timeframe and it is hard to draw conclusions as to what the portfolio will look like in 12 months' time or two or three years' time in terms of deals but acknowledging that with our broader geographic remit some of the first transactions happened to be outside the UK.

Q142 **Zac Goldsmith:** You don't think that one-in-four ratio is indicative of what we are likely to see over the next years? You have £3 billion planned investment over the next three years or you are going to make £3 billion available for investment over the next three years. Is it possible, is it even likely that that four-to-one ratio will shift, do you think?

Edward Northam: You mentioned the £3 billion; let's put that into context. That is by no means the ceiling. That is a minimum amount that was discussed at the time of the privatisation. Given that we are looking at £1 billion in four months, I feel pretty confident that that we will push through that number very quickly and there is no suggestion there is any cap on that.

I can't predict the future, so I can't categorically say about the one-to-four ratio but there is a couple of factors. Within the four projects that we have committed to to date, one of the larger ones involves investment in a partnership alongside the world's leading waste-to-energy company and that partnership contemplates the delivery of a range of assets, the majority of which and the pipeline of which is UK-based. The second thing



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is that I can look forward a little in my current investment pipeline, which moves around and changes shape, and when I look at what that looks like today, the percentage of UK-based projects that make up that pipeline is quite substantial. It is in excess of 50%, so that gives me confidence to suggest that the one-to-four ratio that you are quoting is not necessarily indicative of the way this will play out.

Q143 **Zac Goldsmith:** Going back to the comments in the previous panel, do you have less concern that there is a policy shortfall in relation to this transition?

Edward Northam: I don't quite know how to respond on the degrees of concern. I have commented on the fact that we welcome the Clean Growth Strategy. We need to recognise it is a strategy; it is not a plan. The detail now needs to be filled in and there is a lot of taskforces and workstreams going on as part of that. I sit on one of those taskforces. We need to fill in the detail. Undoubtedly we are in a transition period here for the support for green infrastructure, green energy in particular, and that transition period will almost certainly have an impact on some of the technologies as we change regimes. I am quite confident that the market ultimately will respond to that transition and at the Green Investment Group we have already started that process, supporting a project, albeit in Sweden, that is not heavily reliant on a green subsidy or a CfD.

Q144 **Chair:** On your previous answers, I have just found a graph in our briefing here that says that in 2015-16 you did 30 transactions and in 2016-17 you did 24. What is your anticipation for 2017-18? You have done four. Is it going to be 24; is it going to be 20?

Edward Northam: I guess some of those historical numbers rolled up all of the projects that we directly invested in, which is a small subset of that, as well as the projects that the fund managers that we helped finance and put capital with were doing. To Mr Goldsmith's point, they were focused at that smaller end of the market, so small projects, higher in number. Following the privatisation, those fund managers, having established that, by and large are now off raising capital from the private sector in their own right, so you will not see their activities rolled up into our future transaction reporting.

Q145 **Chair:** How many activities a year, on average, did they used to do?

Edward Northam: It varied. I can't really quote numbers but it is set out in the annual report that we publish every year. That information is available historically. In fact, I think it is also on our website.

Q146 **Chair:** Could you write to us with those numbers about the fund managers so we can strip them out and make sure that we are comparing like with like in the future?

Edward Northam: I can do that, yes.

Q147 **Colin Clark:** From what you are seeing, do you have a preference for



truly commercial deals over Government-supported deals now that the industry is much more mature and the connection costs and the costs of the equipment and the hardware has come down so much? Is that your preference as a commercial investor?

Edward Northam: If I understood the question, do I have a preference for a project or transaction that does not rely on a CfD, for example, over one that does, I think my simple answer to that would be no. I am ambivalent provided I believe in the robustness of the technology package we are supporting and the economics that underpin my investment. Whether those economics are supported by a bilateral contractual offtake arrangement or by a form of tariff, FiT, CfD, whatever you want to call it, I do not have a strong preference either way.

Q148 **Caroline Lucas:** I want to come back to the issue of market failure and risk and so on that I raised in the earlier panel. As you know, the original mandate was to address market failures when the GIB was first set up, and our Committee in an earlier hearing several years ago expressed concerns about what would happen to that particular role of addressing market risk post-privatisation. I wondered to what extent you think that the Green Investment Group will still be able to perform that function of particularly trying to address market failure now that it is in the private domain.

Edward Northam: Addressing market failures remains our core focus for the Green Investment Group under private ownership. There are a number of reasons for that. I think it starts with the fact that that is in our DNA. The team that came together as part of the Green Investment Bank now under Macquarie ownership still has the same focus, the same desire, I guess, to identify those areas where the market is short of capital and to look to ways to fill—

Q149 **Caroline Lucas:** Do you think that was shown in those first four that you have done?

Edward Northam: Sorry?

Caroline Lucas: In the four investment decisions you have already made, if I look at those—not knowing the background of them admittedly—they do not jump out at me as saying high risk.

Edward Northam: They all have significant risk, risk that we have sought to mitigate and manage as part of our diligence and investment process, of course. Let's look at some of them because I think they are good case studies.

We should put this into context. Market failure is not as simple as saying no one supports that technology. A market failure in the waste-to-energy industry can be that there is insufficient liquidity in that market to deliver the potential of that opportunity. When I look at the role we played in financing the Ferrybridge waste-to-energy facility, that was the situation we found. While there is capital available to a degree to support those



projects, there is sometimes a shortfall, and that is the role that we fill there.

If I look at the transaction that we call North Pole, the transaction in Sweden, that is a significant transaction because the economics there are not underpinned by a feed-in tariff or a CfD or similar. They are underpinned by a long-term, corporate offtake agreement with Norsk Hydro that represents, I think, a new model for the delivery of renewable energy projects in the UK as well as the rest of Europe and, indeed, the rest of the world.

You need to look at the detail of each individual opportunity to understand why that was attractive to us and, indeed, the issues that we have addressed by taking that forward.

Q150 **Caroline Lucas:** Can you talk us through the risk profile of the kinds of projects you are looking at right now?

Edward Northam: Yes. We are looking at parts of the market that we think have not yet delivered on the growth potential that they have. A perfect example of that is around energy efficiency and the creation or the launch recently of our business in energy solutions. This is a business that works with the C&I end of the market, so commercial and industrial businesses, to essentially make them more energy efficient and energy independent. We do that through a model where we take on the financing burden of installing that equipment and they finance and pay for that over the longer term through the savings that we are delivering, the energy cost savings that we are delivering through the installation of that technology and equipment.

Q151 **Caroline Lucas:** There is no one else who would be able to do that kind of investment, do you think?

Edward Northam: Indeed. I think we can mobilise additional capital in and alongside us, and there are other market participants that are looking to create that market. We are in early days in terms of getting widespread take-up and here is where, coming back to policy, there are areas that we can work together to help stimulate that market and increase the take-up rate at the C&I level.

Q152 **Caroline Lucas:** It is just that the return on that investment sounds fairly secure given that it is going to come from a fairly known source; in other words the money that is raised through the efficiency.

Edward Northam: The areas where this offering is most attractive is, not surprisingly, with energy-intensive industry. The credit quality of energy varies. Just by virtue of the fact that energy costs have a material impact on their business, then that may make their businesses more or less volatile. I do not think it is as simple as saying they are all really strong credits; this sounds very easy. In fact, far from it. It is a challenging area but one that we are committed to taking forward.



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Q153 **Caroline Lucas:** Do you plan to be investing in all of the technology areas that were set out in the commitments that Macquarie made during the sale process itself?

Edward Northam: We plan to look for investment opportunities across all of those areas. We cannot guarantee we will make investments because we are fundamentally a commercial enterprise. We require commercial projects in order to invest.

Q154 **Caroline Lucas:** One last question if that is okay. The European Investment Bank has played a key role, as you know, in financing riskier energy and infrastructure projects. In the UK it has invested around £13 billion into climate projects in the last five years. If the UK were to lose EIB funding post-Brexit, would the Green Investment Group be in a position to increase its level of investment in the UK? Would that have a material impact on what you do?

Edward Northam: First, I think it is important to say we are not capped in terms of the level of investment we can make. We are encouraged to find more and more things to invest in that meet our investment criteria and objectives. That is the first observation. The fact that someone else is or is not in the marketplace does not directly impact my decision.

Q155 **Caroline Lucas:** But it is a very big player and I guess I want to understand whether it is a risk or an opportunity for you.

Edward Northam: Indirectly, it will have an impact on what we do because they have historically been a large capital contributor, to your point. Having someone of that scale step out of a market in short order will leave a gap.

Q156 **Caroline Lucas:** Can you spell out what that actually means materially to you?

Edward Northam: Gaps in the market are where we operate; where are those gaps?

Q157 **Caroline Lucas:** So it is an opportunity for you?

Edward Northam: It is an opportunity for us.

Q158 **Caroline Lucas:** Not a threat in any way?

Edward Northam: It is a threat to the extent that even with our capital resources we cannot get sufficient liquidity into the market. I am not predicting that as an outcome, but to answer that question directly, that is where it becomes a threat. I would argue it is more likely to be an opportunity.

I would also, I guess, add that the potential withdrawal of EIB from the UK market has been well flagged. We are sitting here talking about it now, so in terms of turning the tap off overnight, I have not seen evidence of that as we engage with project sponsors, that EIB was here today, gone tomorrow.



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Q159 **Chair:** To come back on the EIB, €13 billion has been invested since 2012. There is no way you can fill that capital gap, is there?

Edward Northam: No.

Q160 **Chair:** How many projects have they co-invested in with you? Because they are another form of risk reduction, aren't they, when you are putting your people together?

Edward Northam: I would need to refer back to get the exact, but I think it would be less than double figures.

Q161 **Chair:** Less than double figures, so maybe a good handful of projects?

Edward Northam: It would be somewhere between five and 10 would be my estimate, and we have made 100 investments; in fact, 105 now. Thinking about that, I think it would be, yes, 10 or less.

Q162 **Chair:** Can we have the volume of capital that they have co-invested? As you said, it is not just about the number, it is about the amount. I think that would be very helpful for the Committee when we come to write our report.

Edward Northam: I can certainly provide that.

Q163 **Chair:** Just on money, I had a hangover question from the Green Purposes Company, which is about how much you are giving them.

Edward Northam: The way to respond to this is we have agreed a budget amount, but we have also agreed that to the extent that budget proves insufficient for them to do their role, then we will look to extend that.

Q164 **Chair:** Is the budget four figures, five figures or six figures?

Edward Northam: The budget, from memory, is approximately £100,000 a year.

Q165 **Chair:** Okay, it is a six-figure sum, that is fine. Thank you for clarifying that. You can flex that and you can go up a bit if they need more?

Edward Northam: We can. I hope you heard this morning that what we are particularly focused on is building a strong working relationship with the GPC trustees. We have agreed, for example, an information protocol that goes well beyond the contractual commitments that have been made in the documents. Why are we doing that? We do that because transparency is important, but fundamentally we do that because we see this as an ongoing working relationship where we want to give the trustees early warning of everything we are doing so that they can contribute to that process, recognising their specific role as trustees. They are not in the day-to-day management of the business. They are not intended to be.

Chair: Okay, great, thank you for that.



Q166 Mr Robert Goodwill: The five green purposes of Green Investment Group include the protection of the natural environment and the protection or enhancement of biodiversity. In the previous evidence session, Peter Young expressed a wish to prioritise these but had some concerns that there was neither an investment market nor, indeed, demand for these projects. Do you share these concerns or are there opportunities for investment in projects that fulfil these two purposes?

Edward Northam: I would share that observation. When I look across the investments we have made to date—and I think they will inform what we do going forward without constraining what we do going forward—the reality is that the vast majority of the projects talk to other green purposes than the two that you have just highlighted. That really reflects a lack of project opportunity in those areas.

Q167 Mr Robert Goodwill: Would you feel that if there was a bigger project—for example, a runway at an airport or a new railway line—where part of that project was environmental mitigation, you could within your remit take part in a consortium to fund that, even though the overall project was possibly environmentally neutral or even the other way, because the aspect you were financing was an augmentation or protection of the environment?

Edward Northam: First, we would need to satisfy ourselves that where our proceeds are being allocated is achieving at least one of our green purposes. For the sake of this response, let's assume that we are able to satisfy ourselves of that. Then I think we could get comfortable provided that we are ring fenced in terms of our proceeds being applied and only applied to that activity and, therefore, our return on our investment and the risks associated with that are similarly ring fenced.

Q168 Mr Robert Goodwill: In the past, the Green Investment Bank reported against a set of green metrics. Will you continue the reporting processes established in the Green Investment Bank?

Edward Northam: Yes.

Chair: Nice short answers, thank you.

Q169 Mr Philip Dunne: I have two lines of questioning. I would like to start by getting a better understanding of how the Green Investment Group under Macquarie's ownership is changing or how Macquarie views this investment that it has made. I am not quite clear from your answers as to whether this is a direct investment vehicle or whether it is a fund management vehicle. You have talked about allocating funds to other fund managers investing in green and you have also talked about taking direct stakes. Of course, it was originally set up as an investment bank, whatever that meant. Could you characterise how you see the GIG achieving its purposes, which kinds of financial instruments you are going to be investing in, and how you are going to be managing them?

Edward Northam: Our activities fundamentally are around principal investment, so investing our balance sheet. My earlier reference to



supporting fund managers was something that we set up in the original Green Investment Bank days because we wanted to cover the small end of the market as well as the large end of the market, and we used that as a mechanism for doing it. Under private ownership, under Macquarie ownership, we are principally a principal investment business where we look to put our own balance sheet to work to deliver new green infrastructure but also to mobilise other capital in alongside us as part of that process. That is very consistent with what we were doing as the Green Investment Bank.

Q170 **Mr Philip Dunne:** Will you be raising third-party funds as funds to manage or only on a project by project basis going to third-party investors that would invest alongside?

Edward Northam: Macquarie has a substantial funds management business, and some of my former colleagues sit within that funds management business within Macquarie because they run the offshore wind farm that we established as the Green Investment Bank. I expect we will look to build on the success of that model, so I expect that within the Macquarie umbrella we will expand that activity.

Where I sit within Macquarie is Macquarie Capital and our focus is using our own capital but also bringing others in, often alongside us at the project level, to help finance a transaction.

Q171 **Mr Philip Dunne:** Has Macquarie committed to you that the Green Investment Bank will be its investment vehicle for principal investing and fund investing in the green space?

Edward Northam: They have committed. The Green Investment Group has become Macquarie Capital's principal investment business for all matters of green infrastructure. In fact, since we have established that position here in Europe and we have combined the team, Macquarie were a committed investor in the renewable energy/green energy space prior to acquiring the Green Investment Bank and on acquisition what we have done is put together my team with the team at Macquarie Capital that were particularly focused on that activity and created what I believe is the largest dedicated green energy investment business in Europe. That is the position we occupy within their business.

More importantly, or as importantly, we have expanded that. Now, for the Macquarie green activities across Asia, they are also operating under the Green Investment Group banner applying the same approach, the same investment principles to investing in Asia in green energy as we apply here in Europe.

Q172 **Mr Philip Dunne:** Is that a parallel group or is that within your management remit?

Edward Northam: It is a parallel group. It is all within the Macquarie Capital business, but there is a team on the ground there. It is not efficient for me to be running the day-to-day activities and looking for



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projects in parts of Asia when we have a dedicated team already focused on that. It is about bringing the principles and approach consistently across both activities.

Q173 **Mr Philip Dunne:** How many employees do you have now in the Green Investment Group and how many did you have when you took it over?

Edward Northam: The Green Investment Bank, as it was, was an independent institution that not only had teams that were looking at investment and finance but also had all the support teams and groups that you require for a standalone operating entity. As part of the change of ownership, we joined a much larger platform that is set up with a particular business focus for each of the groups and then with a centralised support function servicing each of those business units. What I have access to directly is a team of people focused on our business, principal investment as well as providing a range of services around green energy. My team is about 70 people.

Q174 **Mr Philip Dunne:** That is investment professionals?

Edward Northam: That is investment professionals, technical people that understand how these assets work, as well as project delivery and asset management capability. That is about 70 people.

A number of my former colleagues that were providing support, who worked in the human resources team or the financial team, have then moved into the central functions group, and then I think I mentioned that I had teams that were running our offshore wind fund and our emerging markets joint venture with BEIS. Those team members have moved into the funds management business within Macquarie.

It is not as simple as saying how many direct employees do you have now; how many did you have. You need to understand the way that works among the group.

Q175 **Mr Philip Dunne:** I understand. How does the number of 70, which is where you are today, investment and technical professionals compare with the group that you were at the beginning?

Edward Northam: It is at the same or, indeed, larger because we have merged with a preexisting team.

Q176 **Mr Philip Dunne:** Would you mind writing to us to tell us? It gets to this issue of the ability of your teams to invest. It will depend on how many investment teams you have and what their capacity is. We touched a little bit earlier on the annual investment amounts changing and the nature of the investments changing, becoming larger projects. What is your sense of both your ability to invest and Macquarie's commitment to provide capital for you to invest on an annual basis for the next five years?

Edward Northam: I am extremely confident with Macquarie's commitment to support our investment activities. I do not see that as a



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limiting factor. I also believe that in terms of available resource and, indeed, scope in parts of the market, including geographically, that we are encouraged to look at and focus on, our remit is expanding and that means we should be able to do more.

I would observe, however, that you cannot do everything. Even with a very large team, there is a limit to what that team can take on. We all know from our various experiences that spreading yourself too thinly increases the risk you get things wrong, and that is not a risk that we want to entertain.

Q177 Mr Philip Dunne: You do not want to quantify the capital commitment you are likely to get. Do you have a specific pledge from Macquarie to you? Have they said to you, "We want you to invest a target amount per year"?

Edward Northam: We do not work to specific budgets and numbers. There are a number of reasons we do not do that. One is that we want to make the right investments. I think that is fundamentally important. That is important for our business. It is also important more broadly for the industry because if we start to get things wrong within this industry, then that will reduce the flow of capital, which is counterproductive to what we are all trying to do here. It is very important we get this decision making right and having forced quotas and amounts increases the risk that you are doing things for the sake of it, to hit that quota, rather than doing it for the right reason.

We have commented earlier in this discussion on the £3 billion number that is in the public domain. I have been at pains to point out that that is what I look at as a minimum expectation and is by no means a ceiling, a target, a cap. It is a number that we would expect to exceed. Then I look at the five months we have been in operation and we have achieved quite a significant amount in that period.

Q178 Mr Philip Dunne: I will be very quick, Chairman. This is the second line of questioning. You made some commitments at the time of the transaction in which you would follow on I think it was £500 million of commitments that GIG and GIB had, which Macquarie has inherited, so follow-on investments in existing. How much of the billion you have invested thus far eats into that £500 million? My assumption is zero.

Edward Northam: Zero.

Q179 Mr Philip Dunne: The UK Government retained an interest in 90% of, I think, five assets, so I assume you are managing those assets on behalf of the Government. Could you characterise those five investments? Presumably, they failed your due diligence test so you did not want to take full ownership of them; they were at the poorer end of the scale of investments. Could you give us a sense of how they are doing?

Edward Northam: Let me respond directly to that. I would argue that it is not right to characterise them as at the poorer end of the investment.



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They are assets on which Macquarie and the Government could not agree on price. That does not make them poor investments. If you try to auction your house and someone bids a number that is unacceptable and you cannot agree on a price, it does not make it poor. I would argue that that is not an accurate characterisation of those investments.

We are managing them on behalf of the Government with a view to trying to realise that value expectation that the Government have put on those assets. They are a collection of assets but they principally include some funds management investments, so fund investments we made historically that, as I said, the Government retained through the process.

Q180 **Mr Philip Dunne:** Can I ask that when you produce your next annual report you provide some clarity on that line of investments so that the public can see how that is performing? It would be quite helpful, I think.

Edward Northam: My only reservation around that is that those assets are 90% owned by the Government. That is a commitment that I would need to discuss with them and get them comfortable with that.

Q181 **Chair:** You cannot tell us how they are performing right now?

Edward Northam: I am really not at liberty to disclose the underlying performance. It is commercially sensitive information, so I would prefer not to be drawn on that.

Q182 **Chair:** What has happened to the remaining assets? Have they been retained or sold off?

Edward Northam: There is a collection of assets that sit in different vehicles. If we reflect back to the transaction, it was essentially a consortium transaction led by Macquarie where they joined forces with a number of investors to make this transaction happen. Those investors had a different appetite for different types of assets within the Green Investment Bank asset portfolio. There was a group of assets principally around our offshore wind business that, together with Macquarie, other investors joined to take an ownership position in and they are sitting in an asset portfolio that we manage on behalf of those investors.

Q183 **Chair:** Have any of those been sold?

Edward Northam: No. There were then other portfolios, including the collection of assets that the Government retained ownership of, and then there was a small number of assets that did not sit within any of those groups. Some of those either have been or may be sold subject to agreement on terms.

Q184 **Chair:** So, some of them have. Is that market sensitive or can we know about them?

Edward Northam: I think one or two of those have probably been announced. They have principally been focused around smaller-scale assets where there are partners in those assets that have expressed an



interest in taking ownership of those assets back—some of those partners are actually the original developers—as well as one or two of the funds platforms that we created where the fund manager has said, in simple terms, “Thank you for helping us establish this line of business in this very important sector. The market more broadly is now particularly interested in this and we can take on and raise capital against this mandate going forward. We no longer need your assistance”. That feels to us like a good outcome.

Q185 Alex Sobel: Following on from Philip’s questions, it is clear that GIG is increasingly being integrated into Macquarie. As the brand for Macquarie’s renewable businesses in the UK, will all Macquarie’s investments in renewables be through the Green Investment Group?

Edward Northam: All of Macquarie Capital’s investments within the renewable energy industry across Europe will come through the Green Investment Group, yes.

Q186 Alex Sobel: What proportion of Macquarie Capital’s investments are in renewables already and what proportion are in fossil fuels in terms of the energy sector?

Edward Northam: It is hard to comment, and we can have a go at pulling out the exact numbers, because Macquarie Capital has a principal investment focus, the vast majority of which from a capital exposure perspective is in renewables. It also has a strong advisory business where it advises clients—and it may take a principal position in that—on PPP transactions, on broader energy, so not just renewable energy but broader energy, as well as other special situations predominantly in the infrastructure space. There is a range of different activities going on, but in terms of using the Macquarie Capital balance sheet in Europe, the vast majority of that activity occurs in the renewable energy space.

Q187 Alex Sobel: Is there an intention to shift towards renewables in your advisory business?

Edward Northam: The intention on the principal side is quite clear from the fact that Macquarie led the acquisition of the Green Investment Bank in the first place. Why did they do that? Because they are particularly attracted to building out and expanding their green energy business. That is fundamentally why they led that acquisition.

In terms of our advisory business, since coming on to the Macquarie platform we have launched a specialist green energy M&A business. Leveraging off I guess the platform that Macquarie already has, I think we are routinely ranked number one or two in terms of infrastructure M&A. Building off that experience, we have put a team together that will focus exclusively on providing M&A advisory services to the green energy market.

Q188 Alex Sobel: What does M&A stand for?



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Edward Northam: Sorry, mergers and acquisitions.

Q189 **Alex Sobel:** Sorry, yes, that is fine. Is Macquarie doing work to green the rest of its business in Europe?

Edward Northam: Indeed. We have established a group-wide global green committee, on which I sit. We meet monthly and we report directly into the executive committee, which reports into the Macquarie board, where we are looking cross-group for all of the activities, all of the opportunities, to have a positive impact in terms of carbon both on the Macquarie business as well as more broadly.

Q190 **Alex Sobel:** Is that also looking at work around risks from climate change and climate change adaptation to Macquarie's business?

Edward Northam: That is not directly within the mandate of the global green committee, but those matters are being considered in other forums within the group.

Q191 **Alex Sobel:** Will Macquarie be implementing the TCFD recommendations on climate-related financial disclosures?

Edward Northam: Macquarie supports the work being done by the taskforce there and is watching that work. I believe we will monitor and evolve our reporting to fit with the recommendations set out by the taskforce.

Alex Sobel: Basically, yes. You are basically saying you will once they are out.

Q192 **Chair:** Just back on that, Macquarie has loaned billions of pounds to controversial fossil fuel projects around the world. Class action lawsuits have been brought against you for rigging international currency and interest rate markets in Asia and the USA; a \$15 million settlement in SEC charges for backing the sale of shares to US investors in a coal-mining company, which it knew had no assets. It is not a great record from the bank. Are you seeing any impact at board level? Do you sit at board level in order to make the changes that this bank needs to make?

Edward Northam: First, I do not sit at board level. Secondly, I cannot talk with knowledge on the matters that you have described there because I have had no involvement in those and, indeed, I suspect they predate the change of ownership.

What I can say with confidence is that the acquisition of the Green Bank was a board-supported and sanctioned transaction. The support went all the way up through the group chief executive, who was personally cited and wrote to the Government as part of the transaction. That is where the commitment to future investment is set out. I feel very confident that as we look to grow our business we have the full support from the board through the group chief executive right down to my business unit.

Q193 **Caroline Lucas:** Just on that, if one were to be cynical—heaven forfend,



but if one were to be—then your assertion that the fact that Macquarie acquired the Green Investment Bank is a demonstration of its green commitment could be read in a different way. You could say, for example, that it was a demonstration that Macquarie was buying out the green competition in order then to close it down and so on. I do not get a sense from you yet about where the damascene conversion has come from. On something as simple as the reporting requirements, it was only in April of last year that the Asset Owners Disclosure Project gave Macquarie a “D” rating in terms of how much it was revealing about its climate impact. It says that it will have to dramatically improve its climate credentials. Was there some moment when the lightning struck and people realised that they needed to go in a different direction?

Edward Northam: I guess my comments and my confidence in their commitment to the sector are driven by a couple of things. The first is they were already an established investor in the market before the privatisation, indeed as a co-investor alongside us in one of the large offshore farms. They already had a substantial book of green energy investments pre the privatisation transaction, so I think that helps establish their credentials and commitment there.

To respond to your comment on taking out the competition, of course, as the Green Investment Bank we were not competitive. We were not competition to them because we only invested where there were gaps. We happily co-existed in that marketplace alongside them, so I do not think there is any suggestion that they were removing that competitor from the market.

Caroline Lucas: We can celebrate the conversion and be happy and reassured.

Q194 **Chair:** To conclude, is it your understanding that the bank is going to implement the recommendations of the taskforce on climate disclosure?

Edward Northam: My understanding is that we are, of course, following the process that has been undertaken and that we will respond to those recommendations through our group reporting, yes.

Q195 **Chair:** Those changes are in hand?

Edward Northam: I am not directly responsible for that, so it is not in my area of responsibility, but my understanding is yes.

Q196 **Chair:** Can you write to us just to get it absolutely right so that we have the absolute facts? We would not want to say anything in our report that was incorrect. Is that okay?

Edward Northam: Yes.

Chair: Thank you very much indeed. We are closing the session.