Written evidence submitted by the Green Purposes Company

BACKGROUND

1. The Green Purposes Company (GPC) holds a special share to safeguard the green mission of the Green Investment Bank (GIB). The GPC took up its role once the GIB was transferred from UK government ownership and bought by Macquarie in August 2017. The GIB operates through a series of wholly-owned subsidiaries, and in August 2017 the GIB created a new subsidiary, Green Investment Group Limited (GIG). Since then GIG has been the principal name used by the GIB, both in the UK and overseas. The GPC's role with the GIB applies to all its wholly-owned subsidiaries, including the GIG.

2. The GIB should only make investments which contribute to the GIB's Green Objective, as defined with reference to five Green Purposes. These are set out in the legislation that created the GIB and in the GIB's articles of association. GPC has one primary function: to protect the Green Purposes of the GIB. The GPC's current focus is solely on safeguarding the green mission of the GIB through its power as special shareholder in the GIB, and in maintaining a constructive relationship with GIB and its stakeholders[1].

3. The GPC wishes the GIB business model to succeed, grow and act as an exemplar. The GPC takes an active interest in the green investment market in which the GIB operates. The GPC is wholly independent of both government and GIB. To deliver its role GPC takes account of:
- Public accountability;
- A wish to be seen to be transparent and competent; and
- A wish to contribute positively to the future development of GIB

GPC believes that stakeholders would be interested to hear our views on some of the questions posed by this inquiry, especially question 4, and have submitted this response accordingly.

QUESTIONS

1. How can the structure of incentives across the investment chain be changed to promote long-term sustainable development?

Current investment markets are dominated by short-term timeframes, driven by the quarterly earnings reporting of companies and the remuneration of individuals, especially fund managers. In examining green investment opportunities in the UK market, the cycling of capital is clearly important, particularly in the early pre-construction and construction phases of projects. Longer term operational investments require revenue streams to support long term holdings. One difficulty with current markets is where investors need to support novel green projects throughout the lifecycle to gain returns in the mature operational stage, and incentives are needed here to reduce the risks.

There is also a lack of incentive in the public sector to make sustainable investments. GPC has noted that energy efficiency projects pioneered by the GIB, such as the conversion to energy efficient LED street lighting by local authorities, struggle to attract investment. This appears due to the annual budgeting of the public sector versus the long-term return on investment from such projects. The business case is sound but still requires confidence in budgets for years ahead, which organisations like

[1] More background is available on GPC's website http://www.greenpurposescompany.com/

local authorities and NHS Trusts do not have, in spite of energy efficiency having the potential to reduce operating costs.

2. **Is the Government's level of ambition on green finance - and the mechanisms it sets out in the Clean Growth Strategy – sufficient to generate the investment needed for the UK to meet its environmental commitments?**

   The government's ambition to become a world leader in green finance is welcomed by GPC, as is the access to the expertise in the GIB through membership of the Green Finance Taskforce. However, the GPC envisages a sustained and substantial programme of government support will be needed to match this ambition. The Clean Growth Strategy list of 50 actions are encouragingly broad and extensive, both across the economy and government. However, pulling these actions through into the mainstream market will require extended timescales. Co-ordination and synergy with devolved government policies will also be important if the UK as a whole is to attract the necessary inward investment at scale.

   The role of government in continuing to support a smooth emergence of new green markets is important for the UK to meet both domestic and international environmental commitments. For example, Defra's 25 Year Environment Plan will require new investment flows into natural capital. The GPC notes that there are currently no markets at scale for investing in biodiversity and in the natural environment, which are two of the five green purposes of the GIB. Until such markets are created through policy and incentives it is unlikely that the market, including the GIB, will be able to invest in these areas in a meaningful way. Such investments have wide implications for health, productivity and sustainability in the economy, beyond Defra's own environment and land use responsibilities, and BEIS's responsibilities for industrial and energy policy, and climate change.

   A joined-up government approach is therefore essential in helping these strands of clean growth to materialise. Measures designed to help green finance depend on a stable policy framework to create a pipeline of projects to invest in, including the conditions for supply chains to develop. The Clean Growth Strategy sets a positive tone for the development of low carbon markets, but greater policy detail is needed including on improving building energy efficiency, widening the market for renewable technologies and creating new markets to restore natural capital and essential ecosystem functions.

3. **How will the Clean Growth Strategy feed into the work underway by the World Benchmarking Alliance on how an SDG index could be established?**

   No response

4. **Is the Green Investment Group (GIG) fulfilling commitments made by Macquarie to ensure the Bank 'remain[s] one of the leading investors in green infrastructure in the UK and Europe'?**

   As stated in the recent National Audit Office report[2] the sale process of the GIB took more than twice as long as expected, at almost 18 months. This was a difficult period and GPC welcomes the strong management during this time which has resulted in relatively modest staff losses and some continued investment activity. However, Macquarie have had little time since August to build a new pipeline of

[2] https://www.nao.org.uk/report/the-green-investment-bank/

opportunities and bring new talent into the GIG. We note that UK deal flows in the first few months have been modest and hope that reflects the distraction of the recent sale process rather than a market response (to recent government policy) or focus abroad by the GIG. GPC feel it is difficult to accurately assess GIG's performance with only 4 investments completed to date, only one of which is in the UK[3]. More time is needed to reveal if a healthy flow of domestic projects that are investor ready exists.

GPC welcomed Macquarie's commitment to invest £3bn over three years to grow the GIG's activities, and we expect a significant proportion of this to be UK based. However, the UK has slipped in its comparative attractiveness for green investments for various reasons, for example it is now 10th for renewable energy according to EY[4]. Operating in the private sector, the GIG will only be able to respond to project investment opportunities that exist in the market. At present large sum domestic opportunities are dominated by a limited range of green energy investments and large-scale waste recovery plants. There are a larger number of projects in the international markets, and it remains to be seen how GIG will apportion its portfolio in different geographic markets. With investments in Ireland, Sweden and India announced to date it is clear that overseas projects will be very important in growing the portfolio, and GPC welcome these opportunities which a government owned GIB could not participate in.

GPC recognise that Macquarie also has greater flexibility to take on development risk and raise capital, and believe there is an appetite to deploy its expertise to help establish less mature markets[5]. GPC also welcomes GIG's commitment to report transparently on the impact of its investments through its annual reporting process and proprietary green impact metrics, including an annual stakeholder day. GPC believe this gives a platform for GIG to continue to provide leadership and encouragement to growing a wider capability in green investment in the UK and beyond. The GPC looks forward to commenting and reporting on the GIG's performance in each GIG annual report.

5. How will leaving the EU affect the UK's ability to leverage investment into low-carbon and environmentally friendly projects in the UK?

No response

6. What options are there for the UK's future relationship with the European Investment Bank? What would be the implications for green investment in the UK?

No response

7. Given the work being carried out by the EU's High Level Expert Group on Sustainable Finance, where should the UK's newly created Green Finance Taskforce concentrate its efforts?

No response

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[3] http://www.greeninvestmentgroup.com/news-and-insights/2017/green-investment-group-announces-new-38-million-debt-facility-for-ferrybridge-multifuel-2/

[4] http://www.ey.com/gl/en/industries/power---utilities/renewable-energy-country-attractiveness-index

[5] For example, it launched Energy Solutions in November 2017, enabling distributed energy and energy efficiency projects: http://www.greeninvestmentgroup.com/news-and-insights/2017/green-investment-group-launches-energy-solutions-offering/ and is developing four additional green economy advisory services

8. How effective are the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations likely to be at moving investment into 'clean' sectors?

The TCFD recommendations include several elements that should help to make investment in companies with sound green credentials more attractive. These elements include:

- Guidance on translating sustainability information into financial information to increase awareness.
- Taking a future-look at climate-related risk, rather than traditional carbon foot printing based on historic data, including scenario analysis and stress testing for potential future climate change impacts. Since the main climate change impacts are increasing steadily, and with possible tipping points in the future, this looks a very sensible approach.
- Ensuring comparability and consistency of reporting for companies in the same sector.

Not all investors are interested in the long-term performance of companies, so TCFD-compliant disclosure will not be immediately relevant across the financial system. Nonetheless, it should start to shift mainstream awareness of the issues which are currently only being reported by specialist green investors like the GIG. Increasing investor awareness of possible rapid unanticipated social, economic or environmental events may be particularly valuable.

9. The Government has said it will 'encourage' publicly-listed companies to adopt the TFCD's recommendations on climate risk disclosure. How could it do this? Is a voluntary approach sufficient?

The TCFD recommendations are more onerous than current UK mandatory reporting requirements. Some recommendations, such as scenario analysis, are relatively new and immature. GPC see any such initiative as this as helpful, but notes that there will be a considerable period before experience allows the full potential of such reporting to be realised. Initially, a voluntary approach may be appropriate whilst this learning takes place, but in the long term will be insufficient to help redirect flows of capital towards green investments.

It might be appropriate for the government to take a stepped approach, allowing companies and analysts to adjust to TCFD-style reporting. A future fixed date should be set for mandatory reporting which fulfils the TCFDs for all qualifying companies[6] with a timetable to allow industry to prepare and streamline their reporting methodologies. GPC believe that increased reporting of green performance of investments and companies can only help to expose the full risks and opportunities that the transition to a low carbon future in a climate changing world provides.

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[6] Government is currently consulting on broadening mandatory GHG or energy-use reporting requirements to non-quoted companies or companies above a certain threshold of energy use as part of the Clean Growth Strategy. TCFD-aligned reporting should apply to all companies who qualify under the reporting rules at the time of introduction.