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Chair
The Public Accounts Committee
House of Commons
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Dear Chair

PAC REPORT: THE SALE OF THE GREEN INVESTMENT BANK – SESSION 2017-19 (HC468)

I am writing in connection with the above report and the assessment of the Green Investment Group's activities over the period since the sale of the Bank in 2017.

Working with the Green Investment Bank/ Group

The Green Purposes Company (GPC) came into being when the Green Investment Bank (GIB) was privatised. Parliamentary and public concerns at the time of privatisation were that once the GIB was free of ministerial control the bank might move away from its environmental and climate change mission. The GPC was established to keep the GIB green.

The means to achieve this was to issue a 'green share' in the GIB, held by the GPC, which gave us the veto over any change in the GIB's 'five purposes' laid out in its original constitution.

That potential veto remains our single hard lever of control. We are not involved in the approval of individual investment decisions. However, we are entitled to write a letter in GIB's, now GIG, annual report and through this channel we are able to give our opinion on the performance of GIG over the previous twelve months. We also have certain information rights and are invited to participate in GIG's annual stakeholder events.

Over the three years no request has been received from GIG to change those five green purposes.

Despite our limited remit the trustees decided from the start to take an active role of engagement with GIG, most obviously through quarterly meetings with their top and senior managers. We receive the 'green dashboard' assessment of each investment. In

our annual appraisals¹ we look also beyond investment levels and take a view on a wider range of issues.

Examples of this are, the level of investment in the UK as opposed to Europe as a whole, the contribution that GIG is making to thought leadership in the sector and the development of the green financial marketplace, and whether it is investing across the whole of its remit rather than just standard renewable energy projects. In effect we are assessing whether GIG continues to be a leader in this market, or whether it just becomes one of many mainstream players on an increasingly crowded pitch.

The GIG brand is now used globally by Macquarie, something that we welcome. We only assess performance in the UK/Europe region. However, we are not aware of any significant difference in investment approach in these other domains.

We are a not-for-profit company limited by guarantee. We have five trustees and no staff. We are committed to public accountability and transparency, and publish our outputs on our website. We make use of a specialist consultancy to help us assess GIG's performance each year.

GIG performance

At the time of privatisation, Macquarie made a number of commitments. They included keeping their Edinburgh office with a substantial staff, making £3 billion of investments over the first three years of Macquarie's ownership, operating within its green purposes, and taking forward the collaboration between UK Climate Investments (UKCI) and the Department of Business, Energy and Industrial Strategy. These have all been fulfilled. Indeed, although the £3 billion target was a European one, we are pleased to note that despite a slow start, at the end of three years approaching £3 billion has been invested in the UK alone.

GIG has not yet invested in all the renewable energy and allied areas it marked out in its original media communication. Energy storage, bioenergy and tidal are examples. The pledge to invest in energy from waste projects has been met. However, GPC has been disappointed that these specific facilities have as yet been unable to make use of their generation of heat - making, in our view, their green contribution marginal.

We have been especially keen to see and encourage GIG to have a greater risk appetite by engaging as a joint developer rather than just the financier at the end of a project's implementation. We welcome that this is increasingly the case.

GIG has established an advisory service, which again we welcome in terms of spreading expertise in the sector, although we have little knowledge in terms of outputs.

¹ <https://www.greenpurposescompany.com/minutes>

We also generally welcome GIG's role in the area of thought leadership. GIG has continued to advise Government, it has played a role in the establishment of the UK's Green Finance Institute, and it has helped to create other green finance institutions around the world.

On a practical level it has driven forward the investible combination of renewable energy projects with private power purchase agreements, an important innovative business model.

We also recognise that GIG has started to play a role in the greening of the wider Macquarie group. How extensive this will become is still to be seen, but if continued this would be an important win given Macquarie's position as a lead global infrastructure provider.

Looking ahead

However, we are disappointed that GIG has failed to deliver as a part of its green mission any investments beyond renewable energy in its portfolio. Indeed, GIG is now a leading investor globally in projects that are driving carbon emission reductions. But GIG has five green purposes. Together those five purposes cover a wide environmental spectrum beyond climate change mitigation. GIG, through its expertise and the resources of Macquarie, has a unique opportunity to drive forward the development of green finance products in areas such as nature-based solutions, the reversal of bio-diversity decline, and the wider provision of eco-system services.

We accept that these are still frontier areas but in five or ten years they will become mainstream. GIG has the potential to bring these timescales forward and in doing so lead the market. We believe this is entirely consistent with GIG's mission to 'accelerate the green transition', and with global efforts to tackle the climate and environmental crises.

Influencing GIG

Our policy of pursuing an active engagement with GIG had the intention of improving outcomes and influencing GIG policy, limited though our formal powers are. We believe that we have achieved that goal in a number of ways.

There is greater transparency and understanding of the £3 billion investment target, greater clarity around green impact reporting, and we have increased focus on divestment policy and how such projects are further monitored in terms of their environmental metrics. We have spent much time discussing with GIG their methods of calculating the positive and negative impacts of investments against the five green purposes. This has resulted in GIG continually improving their assessment methods. However there still remains a degree of opacity in certain areas of assessment

particularly around sustainability as opposed to the more easily measured outputs relating to reduced carbon emissions.

Separately, GPC has produced short reports aimed at influencing not just GIG, but the wider green finance sector. We have investigated and compared the work of similar institutions to GIG globally to highlight what progress and achievements each has made, and draw out lessons learnt. We are currently looking critically at how investment in wider, non-energy, environmental projects can work.

The green share mechanism

We believe that the green share model has in general been successful in achieving its aims. The constructive relationship with Macquarie has prevented any potential vulnerability of the arrangement through corporate restructuring or being strictly limited to GPC's formal powers. It has succeeded because GIG/ Macquarie have fully engaged with the Green Purposes Company and its trustees, and GPC trustees have given much greater time than originally envisaged to make that engagement work.



Trevor Hutchings

Chair, for and on behalf of the
Trustees of the Green Purposes Company

Copied to:

- The Rt Hon Kwasi Kwarteng MP, Minister of State (Minister for Business, Energy and Clean Growth)
- Sarah Munby - Permanent Secretary, BEIS
- Richard Callard – UK Government Investments
- Alasdair Grainger - BEIS