Green Purposes Company

Green Purposes Company Trustees' letter

1. Background

The Green Purposes Company (GPC) was established by the UK Parliament to safeguard the green mission of the UK Green Investment Bank Limited (GIB) and its subsidiaries, which now trade under the brand of 'Green Investment Group' (GIG). The GPC performs its role in two main ways:

- The GPC holds a special share in the GIB with powers to approve or veto any proposed amendment to the five green purposes as set out in the GIB's Articles of Association. No such proposals have been made; and

- The GPC publishes this letter for inclusion in the GIB's annual report, setting out its assessment of how the GIB has performed against the five green purposes.

The GPC may also attend the annual stakeholder meeting which GIG has committed to hold, and to attend the annual general meeting, or other shareholder meetings, of the GIB where the GPC would be permitted to speak on matters in relation to any change to the green purposes.

In performing its role, the GPC is committed to public accountability, transparency and competency, and to contributing positively to the future development of the GIB.

The GPC consists of five Trustees: Peter Young (Chair), Tushita Ranchan, Robin Teverson, James Curran and Trevor Hutchings.

The GPC's role extends to the activity undertaken by GIB entities. All investments in this reporting period have taken place in the UK and Europe, with GIG activity elsewhere likely to have been undertaken by entities other than GIB, as explained in the preceding strategy report.

The GPC has reached its views informed by regular meetings with GIG's senior management, reviewing substantive information provided by GIG, individual work by the Trustees and specialist consultancy support. Our areas of particular interest in this first year are set out below.

2. Green Assessments

The principal assessment of GIG's investment performance against the five green purposes is made with reference to the green impact statements prepared and published by GIG in its Progress Report[1] and in this annual report. Whilst some details of the calculations remain inaccessible, our methods to gather evidence provide us with confidence that our conclusions are well-founded.

We are pleased to see that GIG:

1. Takes robust account of wider environmental impacts at initial screening of potential investments and of counter-factuals (ie alternative scenarios), and have seen evidence that the results impact on investment opportunity selection;
2. Goes well beyond the Equator Principles in respect of non-equity investments;

[1] Available from www.greeninvestmentgroup.com/news-and-insights/2018/green-investment-group-progress-report

3. Uses environmental sustainability criteria which pick up on wider and downstream benefits;
4. Assesses the likelihood of all environmental benefits actually being realised;
5. Undertakes ongoing monitoring of the performance of investments to ensure that they are working effectively; and
6. Has adopted the same methodology as when in public ownership, allowing direct comparison with previous GIB reports.

On balance, the GIG assessment methodology is in the top tier of comparable procedures and is designed to offer breadth and balance across its components. It is one of few methodologies that exclude prospective investments on the grounds of poor environmental performance. It also includes internal, confidential, third-party scrutiny by independent experts.

However, we find the transparency of the assessment process significantly less than the exemplary approach of the European Investment Bank (EIB). Whilst constrained by commercial considerations compared to the EIB, we believe the GIG could work towards publishing Green Impact Statements with greater detail and consistency between the five green purposes in the 'comment on contribution to green purpose' section, for example against the biodiversity green purpose. The addressing of potential mitigation of negative impacts could be enhanced, ultimately we would like to see a clearer requirement for all investments to have no net negative impact on any green purpose.

There is an opportunity to evolve GIG's green assessment methods, for example using more refined forecasting of carbon savings where data permit. The green impact accounts presented here could also become more suited to GIG's future investment strategy regarding a greater diversity in geography, type and holding period.

3. External Green Assurance

This report contains the statement from GIB's independent Green Assurers. They provide a limited assurance across a sample of the investment portfolio, according to the scope of work set out in their statement. One focus is on the completeness and accuracy of the green ratings calculation process. We are comforted that the Assurers regard the assessment of green impacts from GIG's investments as consistent, based on good quality data, and that reports are transparent to interested investors.

4. Investment Strategy

There was insufficient evidence from investments made, during this reporting period, whether GIG will invest to a greater or lesser extent in early-stage developments.

5. Thought Leadership

We commend the GIG for remaining committed to thought leadership through its input to several public activities and to the investment community.

6. Innovation

In terms of technology innovation, GIG tends, on the small sample of investments made so far, to focus on relatively well-established energy-generating infrastructure, two from wind and two from waste.

In terms of financial innovation the onshore wind investment at MarkbygdenEtt was one of the first transactions of its kind. The use of a medium-term bilateral power purchase agreement was key to its financial viability. Setting this contractual precedent is especially pertinent in pointing the way towards a post-subsidy investment environment.

7. Investment Record

We are aware that GIG has invested just under £450M over the period, of which 40% was within the UK and 60% within the rest of Europe. In the UK £169M co-investment was forthcoming, but there was proportionately twice as much leverage in Europe, with approximately £560M of co-investment. Whilst the GPC welcomes the investment in Europe, we are disappointed by the relatively low UK investment levels, whilst noting that the UK green investment market weakened during this reporting period. The GPC would also welcome public clarification from GIG on how it assesses investments made against the £3 billion commitment made in April 2017.

8. Forward Look

Some questions remain outstanding for the GPC. Next year we would expect to look specifically at the new advisory services being operated by GIG in the UK and Europe; we would wish to investigate the methodology for reporting environmental benefits of investments that are held for short periods; and we would also like to look at the influence that GIG has on project design when actively seeking early-stage investment opportunities.

Peter J Young

Peter J Young

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

23 October 2018