National Audit Office

Report
by the Comptroller
and Auditor General

Department for Business, Energy & Industrial Strategy
UK Government Investments

The Green Investment Bank

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National Audit Office

Department for Business, Energy & Industrial Strategy,
UK Government Investments

The Green Investment Bank

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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This report examines whether the Department for Business, Energy & Industrial Strategy has achieved the objectives of the UK Green Investment Bank intervention, and whether UK Government Investments has achieved value for money in the sale.

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Contents

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Key facts

100	2.5:1	£1.6bn
projects financed by the UK Green Investment Bank (GIB) before March 2017	ratio of private capital attracted for every £1 GIB invested	net proceeds paid by Macquarie to buy GIB excluding retained assets

£2.3 billion	total transaction value of the GIB sale, including around £500 million of commitments that will be met by Macquarie
£186 million	premium of sale price over taxpayer investment in GIB (excluding estimated financing costs of around £60 million)
17.5 months	is the length of time the sale process actually took, more than twice as long as indicated in planning
£12.0 billion	is the value of projects financed before March 2017, including GIB and private capital
3.5 years	is the length of time GIB was operational before the government launched the sale

Summary

1 The UK has obligations under international agreements and national law to move to a greener economy. In 2011 the Department for Business, Innovation & Skills, now the Department for Business, Energy & Industrial Strategy (the Department), estimated that the UK needed investment of up to £330 billion to meet those obligations over the decade to 2020, an average of £33 billion a year – double the forecast rate.

2 The government identified market failures affecting the flow of investment into the green economy, and decided that an intervention was needed to address these failures and increase investment. In October 2012 the government established the UK Green Investment Bank plc (GIB) to "accelerate the UK's transition to a greener, stronger economy" by investing in green projects.

3 In June 2015 the government announced plans to bring private capital into GIB. In March 2016 it launched a process to sell GIB into private ownership. The Department (through its Shareholder Executive arm) planned the sale; UK Government Investments (UKGI), formerly the Shareholder Executive and set up as a government company wholly owned by HM Treasury in April 2016, ran the sale process.

4 In October 2016 the Department entered an exclusivity period with a Macquarie Group led consortium. Following a series of delays, including an unsuccessful application for judicial review from another bidder, in April 2017 the Department announced a sale to its preferred bidder. The sale formally completed in August 2017 with Macquarie paying £1.6 billion and government retaining a stake in a small number of assets it values at around £132 million.

Study scope

5 This report examines the GIB as an intervention. Part One examines the creation of GIB, how clear objectives were, and how GIB was set up. Part Two considers GIB's operations and activity, its performance against its objectives, and the Department's monitoring and evaluating arrangements. Part Three examines the sale of GIB, considering the sale objectives, preparations for the transaction, sale proceeds and outcomes, and arrangements for GIB's future after the sale. Our methods are set out in Appendix One.

Key findings

Creation and effectiveness of GIB

6 **The Department set up GIB with a clear rationale, mission and objectives to help the government achieve its commitments on climate change.** The Department developed a clear rationale for its intervention, building on cross-party political support for a green investment bank. GIB's objectives included attracting co-investment from private investors, and delivering both green impact and financial returns on investments. The Department also expected GIB to align with wider public policy objectives, but to be sufficiently independent to demonstrate that green investment is commercial and profitable (paragraphs 1.5 to 1.7, 1.13 to 1.17, Figure 2 and Figure 3).

7 **GIB's structure as a public company gave it sufficient freedom to pursue its objectives and intentionally constrained its investment activities.** The Department considered several forms of intervention, deciding that a separate financial institution was best placed to understand and address the market failures. The Department implemented sound oversight and governance arrangements that allowed GIB sufficient operational independence and flexibility to pursue its objectives. HM Treasury initially agreed to fund GIB until 2015, with European Commission state aid approval for GIB's activities needed for public funding to continue beyond 2016 (paragraphs 1.8 to 1.12, Figure 4 and Figure 5).

8 **GIB has invested in and attracted private capital to each of its approved sectors.** By March 2017, GIB had invested in 100 projects, committing £3.4 billion of its own capital. It had attracted £8.6 billion of private capital, equating to around £2.50 for every £1 invested. This represents capital committed to green projects, which developers draw down as required; the amount of cash deployed is therefore lower. At March 2017, GIB had deployed £1.5 billion of funds to projects, with £544 million still to be drawn down. GIB has committed capital to each of its priority sectors. The portfolio's projected rate of return was 10% at the end of March 2017. GIB has reported impact against each of its green metrics, and anticipates that its impact will grow in future as more projects become operational (paragraphs 2.2 to 2.9, Figure 6 to Figure 9).

9 **The Department lacked clear criteria or evidence to judge whether GIB was achieving its intended green impact.** The Department wanted GIB to be an "enduring institution", but did not make clear what this would mean in practice when establishing the bank. The Department and GIB commissioned an independent evaluation which concluded in August 2015 that GIB was addressing market failures: in offshore wind (where GIB has committed around 46% of its capital); and waste and bioenergy (where it has committed around 34% of its capital). The Department told us this finding was supported by other informal evidence. However, the evaluation noted methodological challenges in the assessment, and indicated less certainty around GIB's impact in other sectors, such as non-domestic energy efficiency and onshore renewables (paragraphs 1.13 to 1.16, 2.10 to 2.15).

10 **The government decided in June 2015 that further public funding was not affordable, and announced it was considering plans to sell all or part of GIB.** Within the context of GIB continuing as an institution, the Department explored options with GIB for giving it the ability to raise its own debt or equity through private capital, including selling all or part of GIB. HM Treasury indicated that it would fund GIB to meet its existing commitments and would make limited additional funding available to GIB for further investments. Failure to fund GIB further would undermine its ability to continue as an institution. After concluding from early feedback that there would be sufficient interest, the Department announced it was considering plans for a sale. The key objectives for the sale in the Department's business cases were to: secure value for money for the taxpayer; and to declassify GIB from the public sector balance sheet and reduce public debt. The Department also told us it wanted to allow GIB to raise its own finance. Subject to meeting its key objectives, the Department wanted assurance that GIB would continue to focus on green sectors and to play an important role in further accelerating the UK's transition to a more sustainable low-carbon economy (paragraphs 1.12, 2.13 to 2.14, 3.2 to 3.3).

The sale of GIB

11 **The Department considered different options for GIB's future but focused on those more likely to meet all of its objectives, including declassification to reduce public debt.** The Department developed a long list of seven options and assessed these against its objectives for the future. It only carried out an economic appraisal of the 'do nothing' option, and the two options that would achieve the declassification objective. The Department rejected other options, including ones where the government would retain a share. The Department considered the impact of the sale on government's primary debt measure, although the impact of the sale proceeds is smaller using a broader measure the Chancellor adopted in November 2016 (paragraphs 3.2 to 3.5, 3.29, Figure 12 and Figure 17).

12 **The sale achieved limited competitive tension, and the Department and UKGI had to develop a fall-back option after launching the sale.** In pre-marketing there was investor interest in buying either GIB's assets or the whole company. UKGI initially told bidders it aimed to sell at least 75% of the shares to a single bidding entity. Late in Round 1 UKGI became concerned that the transaction would fail due to a lower level of investor interest than expected and developed a fall-back option. UKGI told bidders in Round 2 that its preference was to sell 100% of the shares. It received two final bids, both of which were below but close to its minimum acceptable valuation. UKGI judged that Macquarie's offer was preferable as it was more likely to meet the declassification objective of the sale, was higher in value, and there was uncertainty over the other bidder's funding position (paragraphs 3.10 to 3.19).

13 **The sale process took longer than expected, and had an operational impact on GIB.** The sale process lasted for nearly 18 months, more than two times the length indicated in planning. The delay was largely due to transaction complexity, including bidder due diligence, corporate restructuring, and an application for judicial review towards the end of the process. In our interviews members of GIB's board told us that this restructuring was not necessary to secure a sale, and that it distracted them from business as usual. However, the GIB Board agreed to continue the restructuring following a special resolution by the Department, as shareholder. The delay and uncertainty also affected GIB operationally and a number of key staff departed. GIB told us this limited its ability to invest and that it had to manage the situation carefully to avoid a more severe impact on the business (paragraphs 3.17, 3.24 to 3.25 and Figure 15).

14 **UKGI achieved an increase in price and GIB secured specific but non-binding commitments from Macquarie around its future.** In December 2016, Ministers and UKGI decided to pause the sale, following which Macquarie increased its offer by £32 million. At the same time the uncertainty and risk to Macquarie decreased, as the construction risk profile changed and power prices increased. Macquarie has made public (non legally binding) commitments for the first three years after the sale, including commitment to GIB's green objectives and the Green Principles. The preferred bidder increased its commitments to the future of GIB owing to the direct intervention of GIB Board, and increased its final offer during the period of negotiation owing to UKGI's actions. However, government actions to meet climate change commitments will extend beyond 2020. For example, the government's Clean Growth Strategy sets out proposals for decarbonising all sectors of the UK economy through the 2020s (paragraphs 3.7, 3.17, 3.19 and 3.21).

15 **GIB's internal valuations showed that its assets under construction could have been worth more when operational, but government wanted to transfer the construction and market risks of holding to the buyer.** The Department, on advice from UKGI, concluded that the risks of a 'phased sale' outweighed the potential benefits when compared with the sale to Macquarie, and effectively took a lower sale price to avoid the risks of waiting. These risks include: construction risks, the risk that an initial public offering might be unsuccessful, the risk that it might be unable to secure a state aid extension, and the need for additional public funding for GIB under the phased sale option. UKGI did not fully value the benefits and risks of its phased sale option until February 2017, after a number of key decisions had already been taken. UKGI estimated in February 2017 that the value of the construction risk foregone by selling then to Macquarie was between £67 million and £98 million (paragraphs 3.5, 3.26 to 3.28 and Figure 16).

16 **UKGI successfully sold a novel and complicated asset and obtained a premium to government's investment.** The sale was complex, involving (at sale launch) an underdeveloped market and 76 individual assets each requiring substantial bidder due diligence. During the sale process the European Union membership referendum result led to a period of uncertainty in capital markets. UKGI sold 100% of the Department's shareholding in GIB and the majority of its assets for a net cash purchase price of £1,621 million. This price represents a £186 million premium over the taxpayer's investment in GIB (excluding estimated financing costs of around £60 million) (paragraphs 3.5 and 3.26).

17 The Department succeeded in declassifying GIB and most of its assets from the public sector balance sheet. The Office for National Statistics (ONS) has now declassified GIB from the public sector balance sheet. UKGI has retained a 90% interest in five of GIB's assets which Macquarie had valued at a discount to book value (the value of government's interest is around £132 million). The sale reduces public sector net debt by £1.6 billion, and Macquarie is now responsible for around £500 million of future commitments (paragraphs 3.29 to 3.30 and Figure 17).

Conclusions on value for money

18 The Department set up GIB with a clear mission that provided a sound basis for it to succeed. It quickly stimulated investment in the green economy, particularly in offshore wind where it was addressing market failures and returns on the portfolio are forecast to exceed expectations. However, GIB's impact in other sectors is less certain and in deciding to sell the Department lacked clear criteria or evidence to show that GIB had achieved its intended green impact. The Department nonetheless concluded that market failures had largely been addressed, and decided to sell.

19 The sale was complex and took longer than expected, with the Department's declassification objective creating tensions with the need to secure value for money for the taxpayer. Even so the final sale price was within UKGI's expected valuation range, at the lower end. GIB continues as an institution with private funding and green commitments, but Macquarie has no legal obligation to ensure GIB will keep focusing on its green objectives and be an 'enduring institution' for years to come. Ultimately the value for money of the intervention will only be seen over time. A key test will be whether the government needs to intervene again in this way to stimulate growth in the green economy and to help it achieve its climate change commitments.

Recommendations

20 We recommend:

a When creating companies government should set out the criteria (including suitable comparators, where available) by which it will judge their success compared to their mission and objectives. It should proactively plan, develop and maintain a framework for evaluating performance over time, to inform decisions about future policy.

b When setting up companies, government should ensure their capital structure aligns closely with their objectives, and there are clear arrangements for ongoing financing. The government should be clear about whether it will fund them in the long-term; fund them in the short term then allow the company to borrow; or allow them to sell assets and reinvest.

c When considering whether to sell public assets, government should consider the impact of sales on a range of fiscal measures. Officials should assess explicitly by how much declassification could reduce the potential value for money of a sale, and make this impact clear to decision-makers. As recently recommended in the C&AG's report *Evaluating the government balance sheet: borrowing*, government should use its public sector net financial liabilities (PSNFL) measure to inform its management of the balance sheet, and in particular its approach to asset sales.[1]

d Government should draw on a broad range of analysis when considering an asset sale, and continue to assess this at all stages of a sale process, including:

- Government should consider the timing of sales in relation to the lifecycle of the intervention and assess the likely impact of the sale process, including the potential for unexpected delays, on the operations of the public asset it is selling.
- Government should set selection criteria for asset sales early in the process, which should state explicitly when the "no sale" option will be preferred.
- If a sale option does not meet all of government's objectives but is likely to achieve a higher value than other shortlisted options, a basic estimate should be made of the price achievable. This will allow policy makers to better understand any value for money trade-offs between sale options for a given set of objectives.
- Throughout the process, government should quantify and monetise the risks of different options and explicitly factor this information into its appraisal.

1 Comptroller and Auditor General, *Evaluating the government balance sheet: borrowing,* Session 2017–19, HC 526, National Audit Office, November 2017.

Part One

Creation and set up

1.1 This part examines the creation of the UK Green Investment Bank (GIB). We consider the rationale for creating GIB, the way it was set up, its objectives and the plans for monitoring and evaluating progress.

Rationale for the GIB intervention

1.2 The UK has obligations under international agreements and national law to move to a greener economy (**Figure 1** overleaf). Under the Climate Change Act 2008 the UK must reduce greenhouse gas emissions by 80% against a 1990 baseline by 2050, with an interim target of 34% by 2020. Under the EU Renewable Energy Directive 2009 the UK must obtain 15% of all energy from renewable sources by 2020. The government is also bound to a range of environmental standards, including compliance with EU waste targets, air quality, and water management.

1.3 In 2011 the Department for Business, Innovation & Skills (the Department) estimated that the UK needed investment of up to £330 billion over the decade to 2020, an average of £33 billion a year.[2,3] Total investment in UK green infrastructure in 2011 was around £10 billion.[4] The Department estimated investment would need to rise to between £30 billion and £50 billion per annum by 2020.[5]

1.4 The government identified market failures affecting the flow of investment into the green economy. It decided in 2010 that an intervention was needed to address these failures and increase the amount of investment. It identified market failures including:

- temporary limits in company and bank balance sheets, owing to increasing regulation and illiquidity in capital markets, following the 2008 financial crisis;
- a limited number of investors willing to take on the uncertainty associated with projects without precedent or a track record of results; and
- lack of stability in long-term government policy on the green economy.

2 The Department became the Department for Business, Energy & Industrial Strategy in July 2016, following merger with the Department of Energy & Climate Change (DECC).
3 The Department's full business case, 2012 (unpublished).
4 Bloomberg New Energy Finance.
5 The Department's full business case, 2012 (unpublished).

Figure 1
The UK's green commitments

The UK has obligations under various international agreements and national targets

International

Paris Agreement: to limit the increase in global average temperature to 1.5°C above pre-industrial levels, to be delivered through Intended Nationally Determined Contributions.

EU Renewable Energy Directive 2009: requires the UK to generate 15% of energy from renewable sources by 2020.

EU 2030 Climate & Energy Package: sets three key targets for the year 2030 – (1) at least 40% cuts in greenhouse gas emissions[1]; (2) at least 27% share for renewable energy; and (3) at least 27% improvement in energy efficiency.

EU Landfill Directive: to reduce the proportion of biodegradable municipal waste sent to landfill to 35% by 2020.[2]

Other standards: the UK is also bound to EU Waste, Air Quality and Water framework directives.

UK

Climate Change Act 2008: commits the UK to an 80% reduction in greenhouse gas emissions by 2050 (from 1990 levels). It requires government to set 5-year carbon budgets.

Carbon Budgets: the UK Carbon Plan (2011) confirmed measures to meet the first three carbon budgets (2008–12, 2013–17, 2018–22). The government agreed the 4th carbon budget (2023–27) and had to set the 5th carbon budget (2028–32) by June 2016.

DECC concluded from its *2050 Pathways Analysis* (2010) that electricity generation needed to be decarbonised by the 2030s, in order to provide a basis for decarbonising transport and heating.

National and regional

Energy is largely a reserved matter under the devolution settlements with Scotland, Wales, and Northern Ireland. However, environmental policy is devolved.

Scotland: Climate Change (Scotland) Act 2009 includes a greenhouse gas emissions reduction target of 42% by 2020.[1]

Wales: Welsh Government Climate Change Strategy, includes targets to reduce greenhouse gas emissions in Wales by 3% every year and achieve at least a 40% reduction by 2020.[1]

Northern Ireland: target to work towards a reduction in greenhouse gas emissions by at least 35% by 2025.[1]

Notes

1 From a 1990 baseline.

2 From 1995 levels.

Source: National Audit Office analysis of the Department's documents

Setting up GIB

1.5 The Department developed a clear rationale for its intervention, building on cross-party political support for a green investment bank. It commissioned Vivid Economics, an economics consultancy, to carry out an independent analysis of the market failure and the GIB proposal. Vivid Economics found that there was a case for an institution to have an enduring rolling programme of involvement in an ever-changing mix of sectors, exiting from sectors as technologies mature in their product lifecycle.[6]

1.6 The Department carried out extensive planning of the intervention, which established a generally sound basis for GIB to pursue its objectives (**Figure 2** overleaf). The Department produced a business case, and carried out an options analysis and impact assessment. The Major Projects Review Group (the MPRG) reviewed the business case and provided challenge during planning.[7] The Department also set up a temporary GIB advisory group, made up of senior leaders from the green and financial sectors. This group advised on the design of GIB. The project team also sought external advice from legal experts, consultants, and financial advisers.

1.7 The government established GIB in October 2012, to "accelerate the UK's transition to a greener, stronger economy", by investing in green projects (**Figure 3** on page 15). GIB was designated under the Enterprise and Regulatory Reform Act 2013 with a statutory role to pursue five "green purposes":

- reduction of greenhouse gas emissions;
- advancement of efficiency in the use of natural resources;
- protection or enhancement of the natural environment;
- protection or enhancement of biodiversity; and
- promotion of environmental sustainability.

6 Vivid Economics, *The economics of the Green Investment Bank*, October 2011.
7 The Major Projects Review Group is now part of the Infrastructure and Projects Authority.

Figure 2
Summary timeline from creation to sale

Government formally launched Green Investment Bank (GIB) in October 2012. GIB operated for three and a half years before the sale process began

Date	Event
February 2010	Green Investment Bank Commission established.
August 2010	The Department established a Green Investment Bank Working Group.
May 2011	The Department published a policy statement, "Update on the design of the Green Investment Bank".
November 2011	The Department established UK Green Investments as a forerunner to GIB.
June 2012	The Department submitted a full business case to the government's Major Projects Review Group.
October 2012	The European Commission granted state aid approval; GIB was formally established and began to operate.
April 2014	The Department and GIB appointed UBS to undertake a strategic review and identify financing options.
January 2015	The Department appointed Bank of America Merrill Lynch (BAML) as its financial adviser for raising private capital.
June 2015	The government announced plans to privatise GIB.
August 2015	NERA Economic Consulting produced reports for the Department and GIB, evaluating the effectiveness and future role of GIB.
March 2016	UKGI launched a sale process.
April 2016	Round One deadline.
September 2016	Round Two deadline for final bids.
October 2016	UKGI awarded Macquarie preferred bidder status.
April 2017	The government announced a sale; legal documents agreed and signed.
August 2017	Sale completed.
November 2017	The Department published a report to Parliament on the sale, and published the NERA evaluation.

Source: National Audit Office analysis of the Department's documents

Figure 3
The design of the Green Investment Bank (GIB)

Green Investment Bank's objective was to accelerate the UK's transition to a greener economy, by investing in areas of the green economy that the market was not investing in

Government's wider goal:

To meet legally binding environmental targets and government's green policy ambitions.

Rationale:

- The transition to a greener economy requires unprecedented investment in green infrastructure over the coming decades.
- There are market failures limiting the supply of finance to green sectors of the economy.
- An intervention was needed to address these failures and increase the quantum of investment.

GIB's mission:

- To accelerate the UK's transition to a greener, stronger economy.
- To build an enduring institution.

Objectives:

- Direct green impact, arising directly from the GIB's investment.
- Wider green impact, wider benefits of mobilising private finance and reducing technology costs.
- Sound finances, including target returns.
- Compliance with operating principles.

Constraints:

- To invest in-line with the five Green Purposes set out in primary legislation.
- Compliance with GIB's state aid remit.
- To operate in accordance with HM Treasury's *Managing Public Money* (2013)[1] and the GIB's operating principles.
- Funding envelope determined by the Treasury.
- No borrowing, and a limit to the number of staff who may earn more than the Prime Minister.

State aid remit:

- May only invest in specific sectors where market failures have been identified.[2]
- Must not crowd out other investors, and must evidence that no other investors were available.
- Must invest on terms acceptable to commercial investors, such as by taking a minority stake at similar terms to other investors.

Operating principles:

- Sound finances, preserving and building capital.
- Additionality, mobiles additional investment.
- Non-investment activities, fostering Green impact.
- Strategic alignment with government.
- Overcoming market failures, minimise distortion.

Notes

1 HM Treasury, *Managing public money*, 2013.

2 The initial approval allowed GIB to invest in three priority sectors (offshore wind power generation, waste infrastructure and non-domestic energy efficiency) and five non-priority sectors (biofuels for transport, biomass power, carbon capture and storage, marine energy and renewable heat).

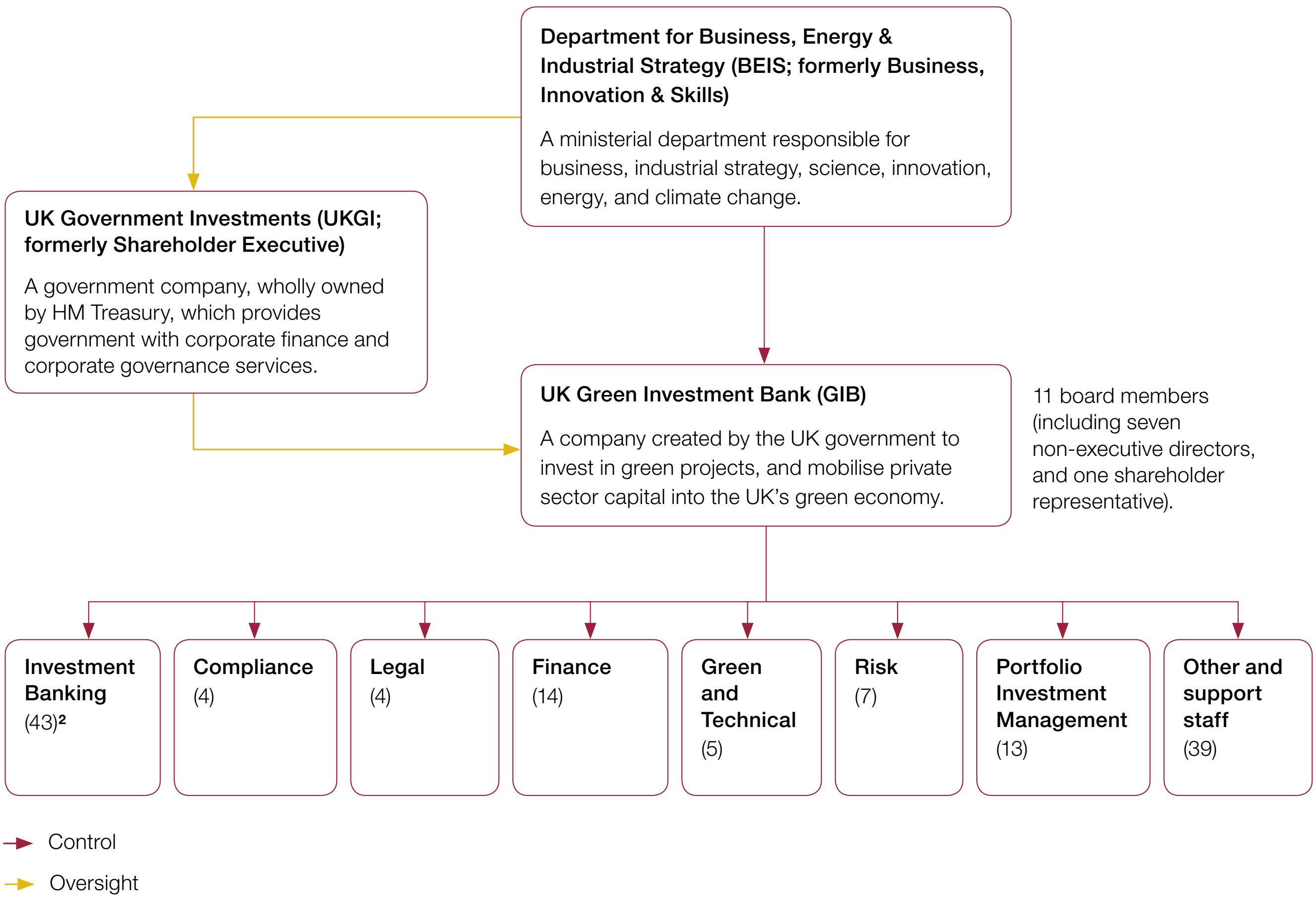
Source: National Audit Office analysis of the Department's full business case (2012, unpublished)

1.8 The government set up GIB as a public company, with the Department as the sole shareholder (**Figure 4**). The Department considered alternative forms of intervention, including a fund structure and subsidies. It concluded that a separate financial institution that developed knowledge and expertise through participating in the market was best placed to understand and address the market failures.[8] A company structure also allowed GIB to operate independently from government, and gave GIB some flexibility from public sector controls, including pay controls. GIB's operational independence created a split between government policy and GIB's investment activities, which increased its credibility with market participants.

Figure 4

Governance structure of Green Investment Bank (GIB)

The Department wholly owned GIB. UK Government Investments (UKGI) managed the shareholding on behalf of the Department



Notes

1 Numbers in brackets reflect staff numbers as at 31 December 2015.

2 Includes 'Capital Markets' team members.

Source: National Audit Office analysis of the information memorandum for the Green Investment Bank sale (March 2016)

8 The Department's full business case, 2012 (unpublished).

1.9 GIB's investment activities were limited by European state aid principles, as a public company, and by policy requirements. The Department notified and sought permission from the European Commission to ensure it was in line with state aid rules. The European Commission's initial state aid approval allowed GIB to invest in three priority sectors (offshore wind power generation, waste infrastructure and non-domestic energy efficiency) and five non-priority sectors (biofuels for transport, biomass power, carbon capture and storage, marine energy and renewable heat).[9] The Department also required GIB investments to provide additionality (**Figure 5**). Collectively, these arrangements intentionally limited the scope of its investment activities. After launch, GIB worked with the European Commission to clarify how it should apply the commerciality definition to ensure that individual investments would meet both the state aid conditions and the Department's additionality requirements.

Figure 5

Additionality and commercial definitions

Green Investment Bank (GIB) was required to invest in-line with a number of key principles

Principle	Additionality per Green Investment Bank's operating principles[1]	Additionality per Green Investment Bank's state aid remit[2]	Market Economy Investor Principle state aid test[3]
Summary	GIB must encourage others to invest.	GIB must not crowd out other investors.	GIB must invest on terms acceptable to commercial investors.
Test	Mobilisation ratio (the ratio of GIB capital to private capital).	Obtain documentary evidence that alternative funding was unavailable, and take a judgement that a funding shortfall exists.	Invest on the same terms as other participants in the same transaction (*pari passu*), or on similar terms supported by an expert opinion.

Notes

1 Set by the shareholder in the Shareholder Framework Document.

2 Outlined in the government's notification to the European Commission, which the latter subsequently approved.

3 A general test outlined in European case law.

Source: National Audit Office summary of Green Investment Bank documents

9 European Commission state aid approval letter to the UK, October 2002. In May 2014 the state aid conditions were modified, and added small scale onshore wind and hydro-energy sectors to its remit.

Accountability and funding

1.10 The Department set a sound basis for performing its role as shareholder in GIB. The Shareholder Executive, part of the Department, oversaw GIB by acting as shareholder on behalf of the Department until 31 March 2016, when it became UK Government Investments Ltd (UKGI). It was established as the government's centre of expertise in corporate finance and corporate governance, as part of HM Treasury.[10] The Department retained the power to appoint the GIB chair, the senior independent director, and a shareholder representative director on the GIB board.

1.11 The GIB chief executive, as GIB's accounting officer, was accountable to both the company and its shareholders, and to Parliament. The Department recognised that there could be situations where the accounting officer's duties to the company would conflict with their responsibilities to Parliament. To resolve some of these conflicts the Department clarified specific provisions of *Managing public money*.[11] This included that the GIB accounting officer was simply required to comply with the GIB's investment mandate, and not required to judge value for money in terms of the whole public sector. The Department's accounting officer retained responsibility for the overall value for money of the GIB, as principal accounting officer.

1.12 The Department gave GIB certainty and flexibility around short-term funding, but intentions for longer-term funding were less clear. HM Treasury maintains control over UK public spending and approved GIB's funding to the end of the spending review (GIB's first three years of operation, to 2015). HM Treasury also exempted GIB from some annual budgeting rules, to give it greater flexibility in making investment decisions. The Department intended to give GIB powers to borrow from April 2015 onwards, subject to public sector net debt falling as a percentage of GDP.

Setting objectives and plans for monitoring and evaluation

1.13 The Department gave GIB a mission to "accelerate private sector investment in the UK's transition to a greener economy" and to do this by creating an "enduring institution" to invest in specific sectors and demonstrate profitability (Figure 3).[12] It set four objectives for GIB to achieve its mission:

- **direct green impact** – the direct impact that GIB's investments have on green outcomes and the mobilisation of private capital alongside GIB's own capital;
- **wider green impact** – indirectly growing the amount of private capital invested in GIB's target sectors by demonstrating the commercial viability of green projects;
- **sound finances** – achieving a target return by applying sound investment practices and risk management criteria; and
- **good behaviour** – complying with the shareholders operating principles.

10 In this report we refer to both the Department and its Shareholder Executive arm as "the Department".
11 HM Treasury, *Managing Public Money*, 2013.
12 The Department's full business case, 2012 (unpublished).

1.14 GIB's objectives are clear and well aligned with its mission and the government's wider policy goals (see paragraph 1.7 and Figure 3). However, it was not clear what an "enduring institution" would mean in practice, which was an important consideration for any future government exit.

1.15 The Department developed metrics for measuring GIB's performance against some of its policy objectives. It also outlined a logic model for the intervention, linking GIB's inputs (such as capital provided by government), activities (for example, committing capital to green projects), and outputs (for example, mobilising capital by investing alongside other market participants).[13] It developed a range of measures:

- **Green metrics** – used to monitor direct green impact. GIB developed a reporting methodology and a series of metrics to report on the realised and anticipated green impact of its investment portfolio. These metrics are set out alongside GIB's financial reporting, in an audited 'Green Impact Statement'.
- **Mobilisation ratio** – also used to monitor direct green impact. This indicates the additional capital mobilised from GIB's investments as a multiple of GIB capital committed.
- **Financial reporting** – used to monitor the 'sound finances' objective. GIB's annual financial reporting gives information on the profitability of its portfolio and the forecast portfolio rate of return. The Department set a minimum nominal portfolio return of 3.5%. However, this minimum rate is low compared with the return on investment of between 7.3% and 16.3% achieved by other infrastructure investors.[14]
- **Monthly shareholder reporting** – used to monitor the 'good behaviour' objective.

1.16 The Department developed criteria for assessing what constitutes 'success' for most of these metrics, but not for green impact. The Department told us this was intentional, because of the unprecedented nature of the investment; because specific carbon targets could constrain GIB too much in its investment choices; and because the original policy intent was to boost confidence in green investing more than achieving direct green impacts. The planning documents refer to a "double bottom line" policy intent of achieving both green impact and financial returns, with an overriding objective of "green impact, accelerating investment to advance the UK's transition towards a Green economy, including reducing greenhouse gas emissions".[15] However the Department could not fully assess performance against the "double bottom line" without criteria for judging the success of green impact.

1.17 The longer term 'wider green impact' objective was to be measured by evaluation of the market, rather than by monitoring performance. However, we found limited evidence that the Department planned a programme and framework of evaluation to determine whether the objectives had been achieved.

13 The Department's full business case, 2012 (unpublished).
14 This range is derived from the return on investment of comparable companies: GCP Infrastructure Investments (7.3%); HICL Infrastructure Company (8.1%); Renewables Infrastructure Group (8.7%); 3i Infrastructure (9.2%); and John Laing Infrastructure Fund (16.3%). These are commercial organisations and therefore not fully comparable.
15 The Department's planning document, *Update on the design of Green Investment Bank*, May 2011.

Part Two

Effectiveness of the Green Investment Bank

2.1 This part examines the operational effectiveness of the UK Green Investment Bank (GIB). It considers GIB's investment strategy and activity, its performance against its objectives and arrangements for monitoring and evaluating it.

Investment strategy and activity

2.2 GIB became operational quickly and established a strong position in terms of capability and expertise in green financing. GIB successfully attracted staff with knowledge and experience of financial markets and green infrastructure, and an experienced leadership team. GIB identified the skills it needed and recruited quickly, including staff with experience of investment banking, risk management, portfolio management, engineering, legal, and other specialisms. The Department for Business, Energy & Industrial Strategy (the Department) expected GIB's remuneration costs to be high relative to the rest of the public sector, in order to attract staff with the skills it needed. The Department set and monitored GIB pay, and approved changes where necessary.

2.3 GIB developed a clear strategy for carrying out its mission, and processes to deliver it, and individual strategies for each approved sector. GIB invested through four routes:

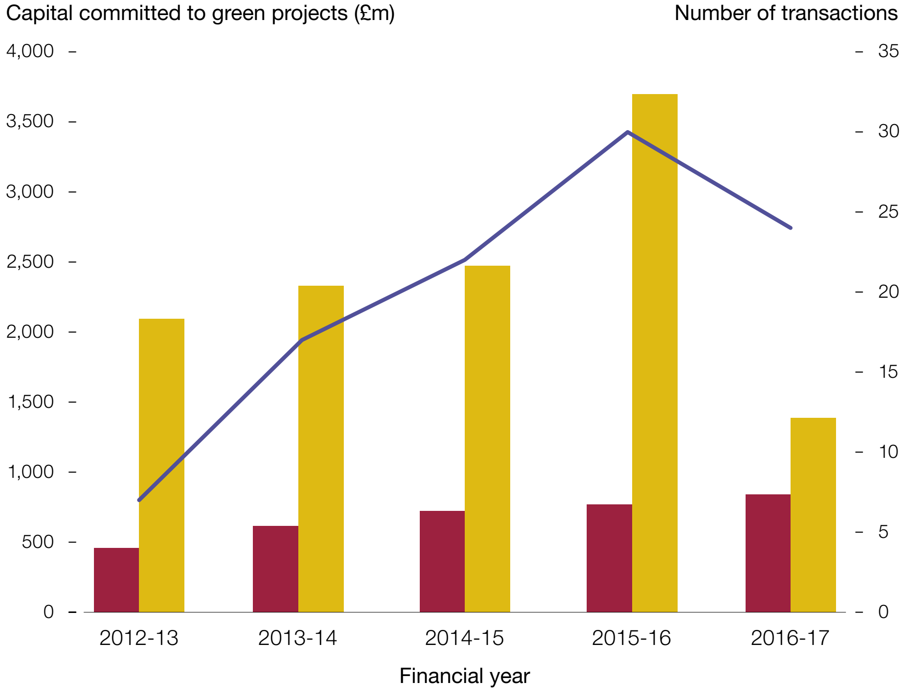
- **Direct equity and debt investments** – acting as principal investor in green infrastructure assets in the UK.
- **Fund of funds** – acting as a limited partner of funds managed by third parties appointed to invest in green infrastructure assets, where GIB's money is managed by other fund managers. This enables GIB to invest in a higher volume of smaller projects (eg energy efficiency).
- **Fund management** – GIB acts as a fund manager and general partner in a fund management business that manages third-party capital in green infrastructure projects (eg GIB's Offshore Wind Fund).

- **International projects** – GIB participates in a joint venture with the UK government, set up to make direct investments in green infrastructure projects outside the UK.[16]

By the end of March 2017, GIB invested in 100 projects with a total transaction value of £12.0 billion, committing £3.4 billion of its own capital.[17] Annual investment is shown in **Figure 6**.

Figure 6
Green Investment Bank (GIB) investment activity and commitment of capital

GIB's investment activity increased over time



	2012-13	2013-14	2014-15	2015-16	2016-17
GIB commitments (direct plus funds)	460	617	723	770	839
Total transaction value (direct plus funds)	2,097	2,332	2,471	3,698	1,387
Number of projects	7	17	22	30	24
Mobilisation ratio	3.6:1	2.8:1	2.4:1	3.8:1	0.7:1

Note

1 GIB's gross commitments between 2012-13 and 2016-17 total £3.4 billion. This figure includes asset sales into, and purchases made by, GIB's Offshore Wind Fund, and other asset refinancing. GIB's net committed capital as at 31 March 2017 was approximately £2.1 billion.

Source: National Audit Office analysis of Green Investment Bank annual reports and accounts

16 The government established the joint venture with particular focus on investing in India, South Africa, Kenya, Tanzania and Rwanda.

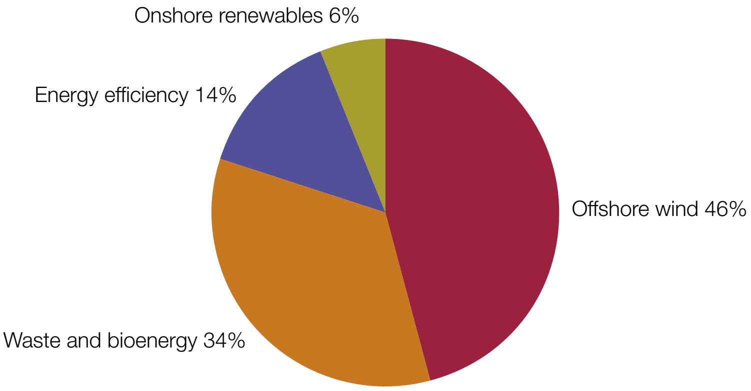
17 Green Investment Bank, *Annual report and accounts 2016-17.*

2.4 GIB has invested in each of its primary sectors, but found it difficult to find appropriate projects in some sectors. At March 2017, GIB had deployed £1.5 billion of funds to projects, with £544 million still to be invested. GIB has committed around 46% of its capital to the offshore wind sector. Offshore wind power generation was a sector identified in the planning of the intervention as exhibiting market failures and in need of significant investment.[18] GIB invested around a third of its capital in the waste and bioenergy sector, including waste treatment and biomass gasification technologies. The remainder of GIB's capital has been committed to non-domestic energy efficiency (14%) and onshore renewables (6%) (**Figure 7**).

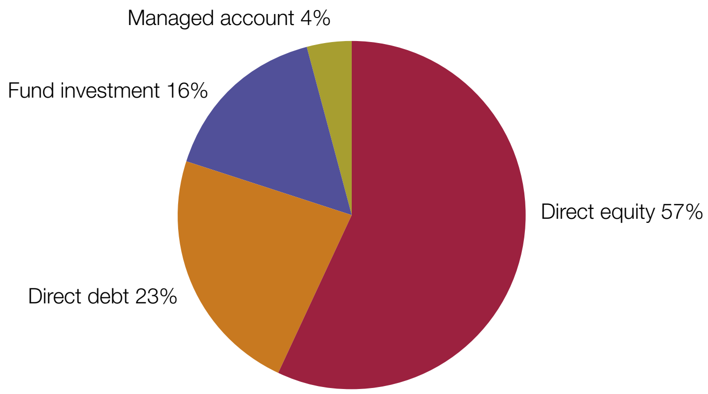
Figure 7
Investment portfolio at March 2017

Green Investment Bank (GIB) has invested in each of its primary sectors, but found it difficult to find appropriate projects in some sectors

Commitment by sector



Commitment by product



Source: National Audit Office analysis of Green Investment Bank, *Annual Report and Accounts 2016-17*

18 Vivid Economics, *The economics of the Green Investment Bank*, October 2011.

Performance against objectives

'Sound finances'

2.5 GIB's financial performance has been modest to date, as most of the projects in its portfolio are still under construction (**Figure 8** overleaf). GIB initially incurred losses of £5 million (2012-13), £4 million (2013-14), and £2 million (2014-15). In 2015-16 GIB reported an £8 million profit, rising to £21 million in 2016-17.[19] In March 2016, at the start of the sale process, GIB's equity portfolio was relatively immature with 84% (by value) of projects still under construction. As construction completes and projects become operational, GIB's income will grow as the investments begin to generate returns. The Department set GIB a target minimum investment return of 3.5% (after operating expenses). While it has yet to achieve this target in any one year, at the end of March 2017 the projected portfolio return was around 10%.[20]

'Good behaviour'

2.6 GIB established controls to ensure it complied with the shareholder operating principles (see Figure 3). GIB's investment approval process ensured it invested in line with its green purposes, state aid remit, and additionality criteria.[21] These controls included an assessment of proposed investments against GIB's green investment principles, which set benchmarks for determining the green impact of investments, and a review of arrangements for reporting under GIB's green impact reporting criteria.

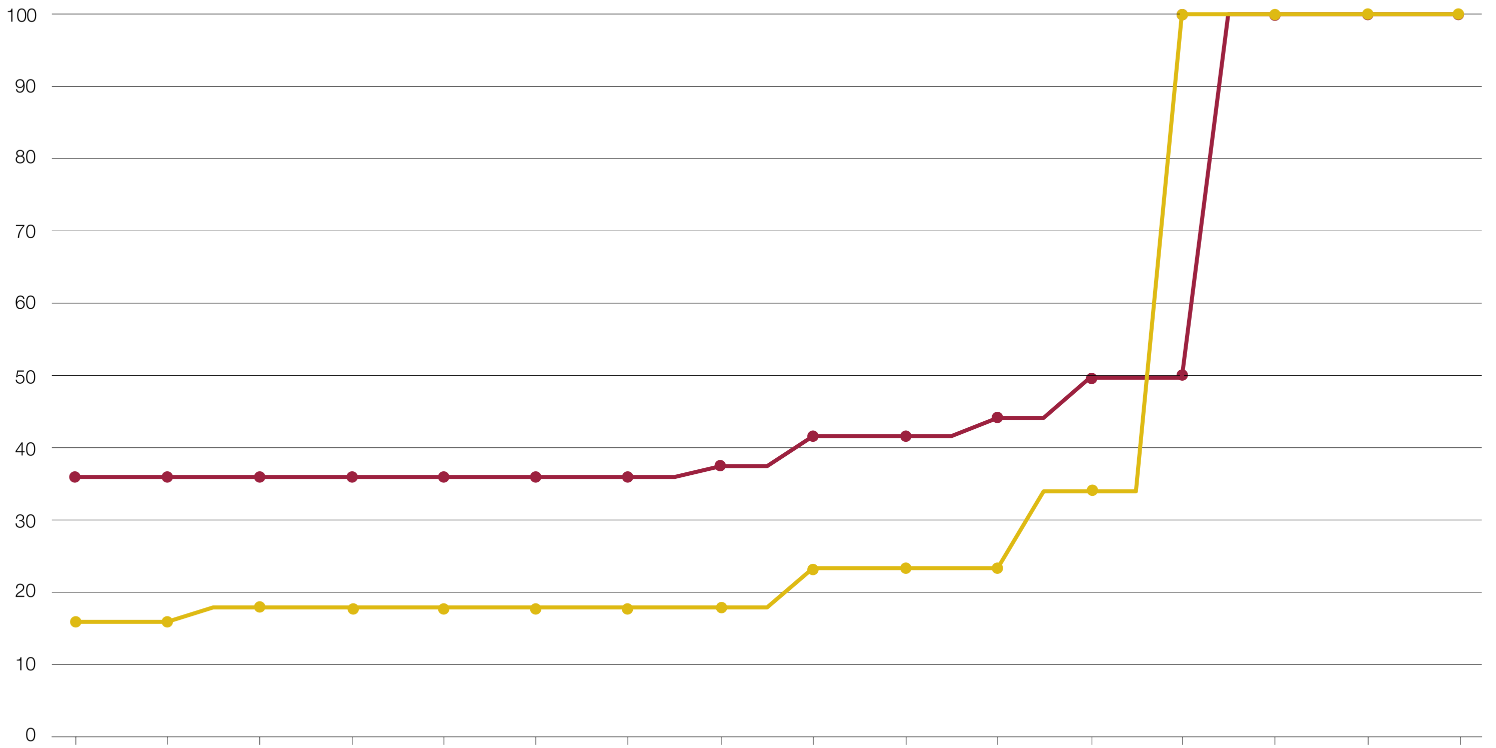
2.7 The Department expected GIB to seek to align its activities with government's green policy objectives, by avoiding duplication, as part of its operating principles. The Department assigned responsibility for oversight of the GIB policy intervention to its Shareholder Executive arm, and subsequently to UK Government Investments Limited (UKGI), set up as a company wholly owned by HM Treasury in April 2016 to replace the Shareholder Executive. Responsibility for green financing policy rested with the Department of Energy & Climate Change (DECC), which was merged with the Department in July 2016.

19 Green Investment Bank, annual reports and accounts.
20 The projected return is calculated on a cash flow basis and assumes that all projects are built on time and budget, and makes further assumptions about interest rates, inflation and future energy prices.
21 GIB documents governing its investment approval process.

Figure 8

Forecast operational status of Green Investment Bank's (GIB) equity portfolio as at March 2016 and March 2017

At sale launch in March 2016 GIB forecast that all its existing equity portfolio would become operational in March 2018



	Mar 2016	May 2016	Jul 2016	Sep 2016	Nov 2016	Jan 2017	Mar 2017	May 2017	Jul 2017	Sep 2017	Nov 2017	Jan 2018	Mar 2018	May 2018	Jul 2018	Sep 2018
As at March 2017	36	36	36	36	36	36	36	37	42	42	44	50	50	100	100	100
As at March 2016	16	16	18	18	18	18	18	18	23	23	23	34	100	100	100	100

Notes

1 This Figure represents GIB's forecast of when its equity portfolio, as at March 2016 and March 2017, was expected to complete construction and become operational. This Figure doesn't reflect the forecast status of the debt portfolio, as the returns on these investments are not directly affected by the operational status of the underlying asset.

2 In March 2016, direct equity made up 50% of GIB's investment portfolio. In March 2017, direct equity made up 57% of GIB's investment portfolio.

3 GIB has continued to invest in construction assets beyond these dates, and therefore a proportion of GIB's assets will be under construction beyond April 2018. This Figure simply represents the status of the portfolio as at March 2016 and March 2017.

Source: National Audit Office analysis of the information memorandum for the Green Investment Bank sale and Green Investment Bank documents

'Direct green impact'

2.8 GIB monitored direct green impact through its green metrics and the mobilisation ratio, as set out in the Department performance monitoring framework. GIB has reported progress against each of the green metrics, and anticipates that its impact will grow in future, as more projects become operational. However, the Department did not set explicit goals for green impact, nor clearly set out what constitutes 'success'. It is therefore difficult to ascertain the scale of the green benefit for the level of investment committed. Comparing GIB's green reporting to the UK's climate commitments shows that GIB expects to make an important contribution to future greenhouse gas emission reductions and renewable energy targets once its investments become operational (**Figure 9**).

2.9 GIB attracted £8.6 billion of private capital to March 2017, equating to around £2.50 for every £1 invested. This represents capital committed to green projects, which developers draw-down as required; the amount of cash deployed is therefore lower. Figure 6 shows private capital attracted and mobilisation ratios in each year of operation to March 2017.

Figure 9
Estimated green impact of Green Investment Bank's (GIB's) portfolio at 31 March 2017

GIB expects to make an important contribution to future greenhouse gas emission reductions and renewable energy targets once its investments become operational

Greenhouse gas emissions reduction	t CO_2e[1] '000	Percentage of the UK's annual target reduction in greenhouse gas emissions during the UK's third Carbon Budget (2018-22)
Green impact of GIB's portfolio in 2016-17	7,835	16.5%
Future estimated average annual green impact	7,955	16.7%
Renewable energy generated	**GWh[2]**	**Equivalent percentage of the UK's projected renewable electricity production in 2020**
Green impact of GIB's portfolio in 2016-17	15,606	12.8%
Future estimated average annual green impact	21,547	17.7%
Energy demand reduced[3]	**GWh[2]**	**Equivalent percentage of the UK's projected renewable electricity production in 2020**
Green impact of GIB's portfolio in 2016-17	87	less than 0.1%
Future estimated average annual green impact	272	0.2%

Notes
1 Thousand tonnes of greenhouse gas equivalent.
2 Gigawatt hours.
3 GIB reported on this figure in its annual report and accounts, it was not a core key performance indicator.

Source: National Audit Office analysis of Green Investment Bank annual reports and accounts

'Wider green impact'

2.10 The Department and GIB also jointly commissioned NERA Economic Consulting (NERA) to perform an independent evaluation exercise. NERA used a survey approach which generated views on the additionality of GIB's activities and on progress in addressing market failures. NERA concluded that GIB was addressing market failures in some sectors, but evidence was much less certain in other areas.[22] However, NERA pointed to limitations in its ability to conclude in some areas: for example, it noted that it could not quantify the difference that GIB made in terms of additional investment, partly because sample sizes were too small in some sectors. NERA also said that it could not draw robust conclusions about GIB's impact on cost of capital, because of the lack of a clear counterfactual case against which it could be measured.

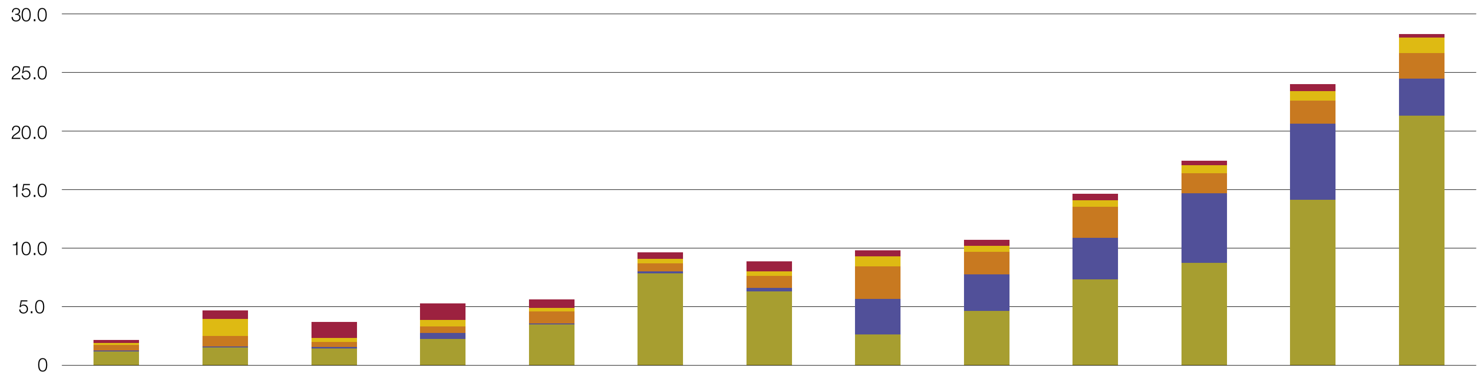
2.11 GIB has made important contributions to developments in the green sector but, due to the lack of a comprehensive evaluation, it is difficult to demonstrate that GIB has achieved optimal outcomes from its resources. **Figure 10** indicates substantial growth in the UK green infrastructure market since GIB was established in 2012. GIB calculates that it was involved in between 43% and 64% of the transactions in the UK offshore wind and waste and biomass sectors each year since 2012.[23] However, we cannot assert the degree to which the GIB was the cause of the growth in the green economy since 2012.

2.12 GIB may have contributed to reductions in the costs of green energy, although it is not possible to establish a direct causal link. We have previously reported that the costs of renewable energy generation are falling (**Figure 11** on page 28).[24] The levelised cost of energy (LCOE) for some renewable technologies are now substantially cheaper than they were 10 years ago, as they have become more established.[25] The Department's forecasts for the LCOE of wind and solar in 2025 have decreased since 2010. The falling cost of renewable energy is also reflected in the contracts for difference[26] strike prices for offshore wind, which fell from a range of £114 – £120/MWh[27] in February 2015 to £58 – £75/MWh in September 2017.[28]

22 NERA Economic Consulting, *Examining the Case for Continuing Intervention*, August 2015 (published November 2017).
23 By transaction value.
24 Comptroller and Auditor General, *Nuclear power in the UK*, Session 2016-17, HC 511, National Audit Office, July 2016.
25 The Department estimates the total cost necessary to generate electricity for each technology, known as the levelised cost of energy (LCOE).
26 Through Contracts for Difference (CfDs), low-carbon generators are paid the difference between the 'strike price' they receive for electricity sold and the 'reference price' – a measure of the average market price for electricity in the UK market. By using CfDs, the Department aims to make investments viable where market prices for electricity are lower than what developers require.
27 Megawatt hours.
28 Department of Energy & Climate Change, February 2015. Round 1 results are available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/407059/Contracts_for_Difference_-_Auction_Results_-_Official_Statistics.pdf. Round 2 results are available at: www.gov.uk/government/publications/contracts-for-difference-cfd-second-allocation-round-results

Figure 10
Growth in the UK green infrastructure market

Annual investment in the UK green infrastructure market has more than doubled since 2012, with investment in wind energy increasing more than four times



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Other	0.2	0.7	1.4	1.4	0.7	0.5	0.8	0.5	0.5	0.5	0.4	0.6	0.3
Energy smart tech	0.2	1.4	0.3	0.6	0.3	0.4	0.4	0.9	0.5	0.6	0.7	0.9	1.3
Biomass and waste	0.5	0.9	0.4	0.5	1.0	0.7	1.0	2.7	2.0	2.7	1.7	2.0	2.1
Solar	0.1	0.1	0.1	0.5	0.1	0.1	0.3	3.1	3.1	3.5	6.0	6.5	3.2
Wind	1.2	1.5	1.5	2.2	3.5	7.9	6.3	2.7	4.7	7.4	8.7	14.1	21.3

Notes

1 'Other' includes low carbon services and support, marine, geothermal, small hydro, biofuels.

2 Includes new investment and secondary acquisition of existing assets.

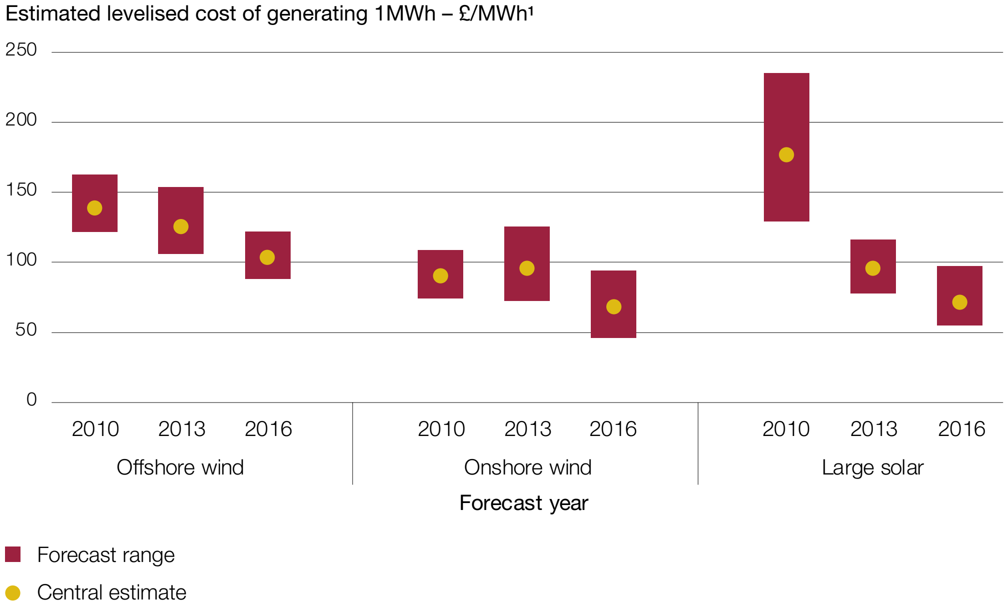
3 The original data were in US dollars ($). We have used the average median daily price from each year to convert $ into GBP (£).

Source: Bloomberg New Energy Finance

Figure 11

Levelised cost of generating 1MWh[1] with different technologies in 2025: changes in Department's estimates

The Department has revised downwards its estimate for the cost of generating electricity from solar and wind in 2025



Notes

1. Megawatt hours.
2. Figures in 2014 prices.
3. Levelised costs exclude the wider system and external costs typically associated with intermittent generation.

Source: National Audit Office analysis of data from Department of Energy & Climate Change reports: *Review of the generation costs and deployment potential of renewable electricity technologies in the UK*, October 2011; *Electricity Generation Costs*, October 2012; *Electricity Generation Costs 2013*, July 2013; *Electricity Generation Costs*, November 2016

Considerations of GIB's future

2.13 By 2015 HM Treasury indicated that it would allow GIB to meet its existing commitments and would only make limited additional funding available to GIB for further investments. Failure to fund GIB further would undermine its ability to continue as an institution. State aid approval for GIB to operate would expire in 2016. From 2014 the Department and GIB worked together to consider alternative options for funding GIB beyond 2015, including giving it the ability to raise its own debt or equity through private capital. In early 2015 the Department and GIB commissioned NERA to evaluate GIB's impact to date. In June 2015, following the General Election, the Department announced plans to bring private capital into GIB. NERA submitted its evaluation report to the Department and GIB in August 2015, which the Department published on 15 November 2017.

2.14 Government has a policy goal to reduce the fiscal deficit, and a policy to sell assets where there is no policy or strategic rationale for holding them. In 2015 the Department concluded that insufficient capital liquidity was no longer the main barrier to green infrastructure investment. It reached this view from the NERA work and told us that it took account of other informal evidence, particularly from the GIB Investment Committee which had told the Department that it was becoming more difficult to find projects with sufficient additionality within its remit. The Department saw a risk that continued public investment in GIB could compete directly with private capital. The Department also saw private capital as a potential solution to the questions of future funding and state aid approval.

2.15 The Department undertook positive steps to evaluate GIB's impact, but it could have taken further steps to increase confidence that GIB's mission had been completed. It articulated GIB's mission, but did not develop a fuller picture of the circumstances and criteria it would use to judge that the mission had been completed. The Department commissioned the NERA report to evaluate GIB's impact, acknowledging at the time that the evaluation would have inherent limitations, and drew on informal evidence from other sources to inform its considerations.[29] But it did not take other steps to provide increased confidence in its evidence, for example it did not establish peer review and other quality assurance procedures around the NERA evaluation, or publish the findings of the NERA evaluation, before or during the sale, to enable greater scrutiny and challenge prior to making decisions about GIB's future.[30] It did not undertake a process evaluation alongside the impact evaluation, which could have improved its understanding of whether the initiative did what it intended to do in terms of delivery.[31]

29 Department for Business, Innovation & Skills, *Evaluation Plan 2016*, page 12. "The quality of the Green Investment Bank evaluation in terms of determining causality is limited by its short running period meaning there is a small number of investments.

30 We set out good practice in government evaluation in our report, *Evaluation in government*, December 2013.

31 Department for Business, Innovation & Skills, *Evaluation Plan 2016*, page 16, notes that "BIS analysts tend to commission a process evaluation alongside an impact evaluation".

Part Three

Sale of the Green Investment Bank

3.1 This part examines the sale of the UK Green Investment Bank (GIB). It considers the sale's objectives; preparations for the sale and its proceeds and outcomes; and arrangements for GIB after the sale.

Sale objectives

3.2 In June 2015 the government said it had "concluded that the best approach is to move GIB into private ownership subject to ensuring we achieve value for money".[32] The government's main objectives for a sale were to:

- deliver value for money for the taxpayer/Exchequer; and
- declassify GIB from the public sector balance sheet (and the extent to which it makes an impact on fiscal aggregates), and thereby reduce government debt.[33] The Department also told us it wanted to allow GIB to raise its own finance.

3.3 Government also set a secondary objective, subject to the main objectives being achieved, to ensure that "GIB will continue as an institution focusing on green sectors and play an important role in further accelerating the UK's transition to a more sustainable low-carbon economy".

Exploring sale options and timings

3.4 Before launching a sale the Department's outline business case included seven options on a 'long list' and assessed these against its objectives for the future. UK Government Investments (UKGI) further developed a short list of five options, but excluded two shortlisted options ('recycling of capital' and 'hybrid structure') from the economic appraisal that it considered would not declassify GIB from the public sector (**Figure 12**). The government later considered only the 'phased sale' option as viable, as the 'do nothing' and 'wind down' options would not achieve the declassification or enduring institution objectives.

32 Written ministerial statement, 25 June 2015, available at: publications.parliament.uk/pa/cm201516/cmhansrd/cm150625/wmstext/150625m0001.htm

33 The Department's outline business case for the sale, 2015 (unpublished), which defined this with reference to public sector net debt.

Figure 12
Alternative options considered during the sale process

Outline business case (November 2015)			**Full business case** (September 2016)	**Final business case** (April 2017)
Long list[1]	Short list[1]	Options included in economic appraisal		
Do nothing[2]	Do nothing[2]	Do nothing[2]	Do nothing[2]	Sale of 100% shares
Recycling of capital	Recycling of capital	Wind down[3]	Wind down[3]	Phased sale[4]
Sale of GIB shares	Sale of 75%–100% shares	Sale of 75%–100% shares	Sale of 100% shares	
Hybrid structure	Hybrid structure		Phased sale[4]	
Fund structure	Wind down[3]			
Wind down[3]				
Change in policy remit				

Notes

1 The 'long' and 'short' listed options were not quantified.

2 A 'do nothing' option is a mandatory part of the economic appraisal under the Treasury's Green Book guidance.

3 The 'wind down' option was also referred to as the 'accelerated sale' option.

4 The 'phased sale' option was also referred to as the 'refocused GIB' option.

Source: National Audit Office analysis of project business cases

3.5 The Department decided that the immaturity of GIB's portfolio would not affect the optimal sale timing, as the risk transferred to the buyer would offset any discount necessary. GIB's portfolio consisted of 76 assets at sale launch in March 2016. As infrastructure assets become operational they become more valuable. This is captured in 'value uplift' as assets achieve various construction milestones. At the sale launch, only 16% of the equity portfolio was operational and generating income for GIB. The remaining assets were expected to become operational by March 2018.

3.6 The Department initially considered launching a sale in October 2015, with support from the GIB board. The Office for National Statistics (ONS) advised the Department that GIB would remain a public body as long as the legislation that protected the 'Green Purposes' stayed in force, regardless of a sale.[34] Following an amendment to the Enterprise Bill and after engagement with ONS and others, the Department designed a structure where an independent company, the Green Purposes Company Limited (GPCL), holds a special share in GIB. The special share structure was intended to protect GIB's green mission while also allowing its declassification. The trustees of the Green Purposes Company were appointed independently of government and GIB, and have powers to veto changes to the green purposes in GIB's Articles of Association. The Department waited to launch a sale until it had sufficient confidence that the Enterprise Bill, which would provide for repeal of the previous legislation on sale completion, would pass through both Houses of Parliament.

34 The Office for National Statistics is the body responsible for deciding which institutions are included in public sector statistics.

Sale preparations

Project governance

3.7 UKGI led the sale on the Department's behalf (**Figure 13**). UKGI addressed the potential for conflicts between itself (as vendor) and GIB (as target) by setting out clear roles and responsibilities for the sale, and by restricting GIB's involvement in some aspects of the sale process. GIB's (still substantial) role included producing materials for investors, supervising the vendor due diligence process, and giving the Department its views on the bids received.

Advisers and fees

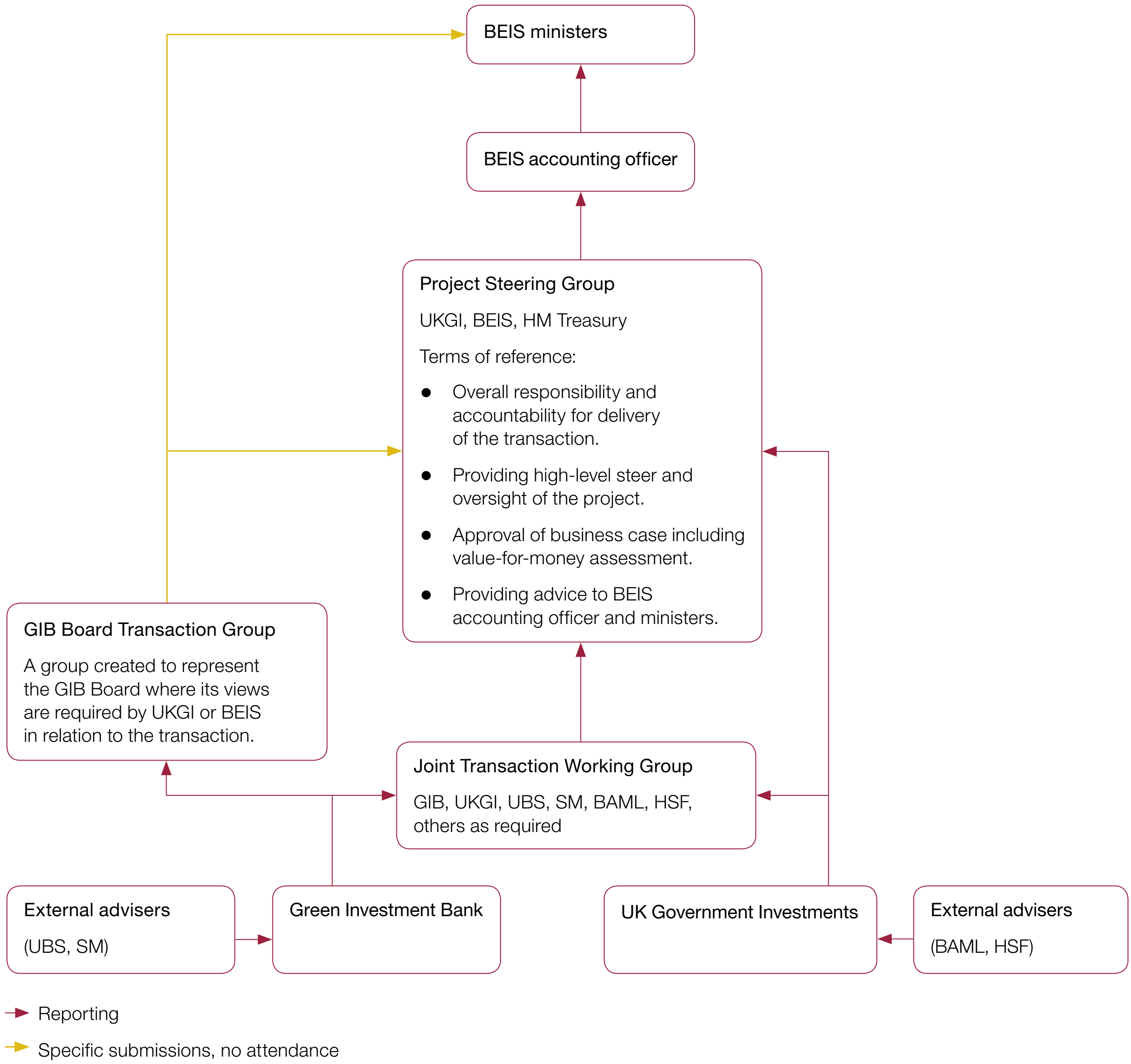
3.8 **Figure 14** on page 34 summarises advisers appointed and fees paid. GIB first engaged UBS in September 2014 to provide strategic advice on raising private capital. The Department engaged Bank of America Merrill Lynch (BAML) in January 2015 to lead on selling the GIB business as a whole through a share sale. UBS continued to support the transaction by undertaking extensive work including carrying out pre-marketing with BAML, preparing an information memorandum, supporting due diligence and preparing alternative plans should the sale process fail. The BAML and UBS fees depended on GIB successfully raising capital. BAML's contract included a £1.1 million success fee payable on transaction completion. The UBS fee depended entirely on a successful transaction, which is unusual for a target company's financial adviser, but UKGI set process guidelines to limit the potential for conflicts to arise. The fee structures protected the government from increased costs caused by delays in the sale process.

3.9 The Department appointed Herbert Smith Freehills (HSF) to act as its legal adviser for the sale. HSF's fee increased from £1 million to £2.36 million owing to the extended period required to complete the sale, the need for advice on restructuring GIB, the retained assets, the special share arrangements and judicial review (see paragraphs 3.6, 3.17, 3.23, and 3.30). GIB appointed Slaughter and May (SM) to act as its legal adviser, to allow the board to discharge its responsibilities to the company and the shareholder. The Department also engaged SM, to provide legal advice on state aid considerations. UKGI engaged Ernst & Young (EY) to give independent valuation advice throughout the transaction. UKGI ensured that EY had no prior knowledge of existing GIB valuations before carrying out its own valuation work, following our recommendation on a previous transaction.[35]

35 Comptroller and Auditor General, *The sale of Eurostar*, Session 2016-17, HC 490, National Audit Office, November 2015.

Figure 13
Project governance structure

The sale was led by UK Government Investments (UKGI), with input from the Green Investment Bank (GIB), though the Department for Business, Energy & Industrial Strategy (BEIS) is ultimately accountable for the decision to sell



Source: National Audit Office analysis of the Department's business case

Figure 14
Summary of advisers

Adviser	Scope	Fee structure
Department/UKGI advisers		
Bank of America Merrill Lynch	Financial adviser	£1,100,000 (success fee) £298,282 (retainers)
Herbert Smith Freehills	Legal adviser	£2,355,244
Ernst & Young	Independent valuation advice on GIB, and a report on compliance of the retained assets transaction with state aid rules	£502,500
Slaughter and May	State aid legal advice	£228,512
Government Legal Department	Advice and representation	£95,241
Total Department/UKGI costs		**£4,579,779**
Green Investment Bank (GIB) advisers and third party service providers		
UBS	Financial adviser	£5,000,000 (success fee)
Slaughter and May	Legal adviser	£2,478,327
KPMG	Commercial vendor due diligence, fairness opinion and market economy operator report	£1,440,333
Ernst & Young	Tax and accounting advice	£552,689
Further legal costs	Constant legal recharge – various law firms	£447,899
NERA	Evaluation report	£120,000
Chatham	Advice and transfer of swaps	£90,000
Poyry	Forecast energy curve disclosure	£52,500
Other	Khaitan and data room	£20,527
GPCL	Various advice and work, including website design, review of funding, legal, accounting, recruitment of trustees and green charity formation	£173,833
Total GIB costs		**£10,376,108**
Amount of GIB costs taken on by Macquarie		£10,136,624
Amount of GIB costs taken on by the Department/UKGI[2]		£239,484
Overall Department/UKGI costs		**£4,819,263**

Notes

1 All advisers' costs are listed exclusive of value added tax (VAT) or similar taxes.

2 The amount of GIB costs taken on by the Department/UKGI includes VAT or similar taxes.

Source: National Audit Office analysis of UK Government Investments and Green Investment Bank documents

Pre-marketing the sale

3.10 UBS arranged 36 meetings between potential investors and GIB, before BAML's appointment in January 2015. Both advisers then jointly conducted a pre-marketing exercise, arranging over 50 meetings with investors and GIB, to gauge the viability of a sale. UBS and BAML held these meetings with global investors, including fund managers, infrastructure investors, international conglomerates, life insurers and pension funds. BAML and UBS told us there was market interest in buying either GIB's equity assets, its debt assets, or the whole company.

Process and transaction structure

3.11 UKGI used a 'locked box' mechanism to simplify the bidding process. Bidders set a price based on the balance sheet at 31 March 2016 and agreed a rate at which the price will grow between this date and completion (the accrual rate). The final price is the sum of the bid price, any new equity issued, and an accrual rate adjustment applied to both. UKGI applied an accrual rate of 8.7% to its own valuation of the options.[36]

3.12 The government intended GIB to be free of state aid restrictions after sale. To achieve this GIB needed to repay all funds the government had provided plus a minimum return of around 2% (the 'state aid minimum price'). As the European Commission required GIB itself to make this repayment, it was necessary to structure the sale as an equity injection by the bidder, followed by a repurchase of the government's shareholding. This structure resulted in greater governance considerations for GIB's board than those of a typical sale.

Running the sale process

3.13 On 3 March 2016 the Department launched a standard two-round competitive auction, intended to create competitive tension among bidders (**Figure 15** overleaf). The sale was complex, involving (at sale launch) an underdeveloped market and 76 individual assets each requiring substantial bidder due diligence. Competitive tension was limited during the process, with a small number of credible bids in the later stages.

Round One

3.14 The Department told bidders it aimed to sell at least 75% and up to 100% of the government's stake in GIB. UKGI received five bids, including a letter of interest from a bidder offering to buy GIB's debt assets. The Macquarie consortium submitted the highest bid, but all bids were below the state aid minimum price. UKGI considered the level of interest "satisfactory" but "subdued", and saw a significant risk that the transaction might be unsuccessful.[37] UKGI began to develop a fall-back option.

36 This was a blended rate based on assumed discount rates applied to GIB's different asset types, under the 'hold' scenario.
37 UKGI documents, March 2016.

Figure 15
Sale process summary

Stage	a) Pre-qualification	b) Round One	c) Round Two		e) Exclusivity period	f) Completion
Purpose	Invite potential investors to express interest and check that they are eligible to bid	Provide information on the business to bidders and receive initial bids	Provide detailed due diligence information to shortlisted bidders and access to management		To finalise sale terms acceptable to both parties of the transaction	To execute the sale
Expected timing	Throughout Round One	Eight weeks	Eight weeks		Six weeks	Four to eight weeks
Actual timing	Throughout Round One	Eight weeks (3 March to 27 April 2016)	18 weeks (11 May to 12 September 2016)		29 weeks (27 September 2016 to 19 April 2017)	17 weeks (20 April to 17 August 2017)
Investor response	Marketed to over 120 institutions Confidentiality agreements signed by 24 parties	Five bids received Three for 100%, one for 75% and one letter of interest in debt assets only	**Interim bids** Four bids received Three for 100%, one for 75% UKGI judged only two of the bids to be credible and the two other bidders withdrew	**Final bids** Two final received bids One for 100% and one for 75% Macquarie selected as preferred bidder	Sale agreement signed	Transfer of shares from the government to Macquarie Proceeds to government Government buy back of retained assets
Bid range (average)	n/a	£953 million – £1,065 million (£1,023 million)	£1,002 million – £1,087 million (£1,043 million)	£996 million – £1,056 million (£1,026 million)	£1,105 million – £1,152 million	£1,152 million

Source: National Audit Office analysis of UK Government Investments documents

Round Two

3.15 The Department took four bidders into Round Two in early May, telling them its preference was to sell 100% of the government's stake in GIB, but that it would consider other proposals. Midway through Round Two, the Department extended its 27 July deadline for final bids by seven weeks, to 12 September (while retaining the date as a deadline for interim bids). Bidders had requested extra time to complete due diligence because of the number of GIB projects involved, and initial technical issues accessing data. UKGI was also aware that Macquarie needed more time to raise third party capital.

3.16 The Department received four interim bids by 27 July and noted that only two were credible. The Macquarie consortium bid (for a 100% stake) was the highest; the Sustainable Development Capital LLP (SDCL) consortium bid for 100% (but was open to government retaining a 25% equity stake). Both bids were below the state aid minimum price. The other two bidders did not submit final bids. A member of the SDCL consortium withdrew from the process in early September before the extended final deadline. The Macquarie consortium became aware of this, and saw itself as the only credible bidder left in the process. This led to a loss of competitive tension in the sale process.

3.17 Macquarie submitted its final binding bid on 12 September 2016; it met the state aid minimum price of £1,087 million, with a proposed accrual rate of 2%, but included deductions taking the price below the state aid minimum price. Macquarie based its offer on GIB immediately selling assets it saw as 'non-core' (such as GIB's debt assets) post-completion and restructuring GIB before completion. These terms reduced the risk to Macquarie.

3.18 SDCL's final offer (for a 75% stake) came in two days after the deadline and was under the state aid minimum price, valuing GIB at £996 million.[38] UKGI saw the SDCL funding position as less secure, which made a successful transaction and future investment less certain. UKGI was also concerned that the SDCL bid might not declassify GIB from the public sector, as government would hold the single largest equity stake due to a number of SDCL consortium members being public sector organisations.[39]

3.19 The Department offered Macquarie preferred bidder status, subject to: increasing its net offer price to above the state aid minimum price; accepting that the locked box accrual rate increase from 2% to 7.7% should the transaction be delayed beyond December; sharing its asset-level valuation of GIB with UKGI; and other terms. Macquarie accepted the increased price and most other terms. UKGI accepted Macquarie's condition that GIB undertake corporate restructuring before completion, which reduced the risk for the buyer, in return for imposing a £10 million break fee payable to the Department should the sale not complete. The Department and Macquarie entered an exclusivity period expected to last around six weeks.

38 Valued on a like-for-like basis with a 100% stake.
39 The Pension Protection Fund and Environment Agency Pension Fund were members of the SDCL consortium.

Exclusivity period

3.20 The exclusivity period lasted seven months in total. GIB continued to invest in new projects during the sale, which required further bidder due diligence. On 25 November, Macquarie told UKGI that it was no longer able to meet its bid price, because of macro economic factors and specific issues around some GIB investments.

3.21 On 19 December UKGI advised ministers that "should the objectives of a continuing institution and/or short term declassification be relaxed then the Phased and Accelerated sale options are likely to offer better Value for Money depending on relative execution risk and Government's appetite for market risk". On 20 December, ministers paused the transaction because of pricing concerns. They asked UKGI to seek a higher price from Macquarie following the delayed receipt of its asset-level valuation of GIB. On 22 December 2016 the GIB Chair wrote to ministers expressing the board's serious concerns around the proposed transaction's complexity and the business's future. In late December and early January the GIB Chair asked Macquarie to make its commitments clearer and more specific (see paragraph 3.32).

3.22 In mid January 2017 Macquarie wrote to the Department increasing its offer by £32 million, and agreeing to exclude assets that it valued at a £38 million discount to book value. Macquarie also made its post-sale commitments clearer and more specific. This largely addressed the GIB Board's concerns about GIB's future. But the Board was concerned that completing the restructuring work would conflict with their fiduciary duties as directors of the company, given the possibility that the transaction might not complete. The GIB Board agreed to continue pre-completion work only following a special resolution by the Department, as shareholder. In our interviews members of GIB's Board told us that they disagreed with the view of UKGI and HM Treasury that this restructuring was necessary to secure a sale, and that it distracted them from business as usual.

3.23 Both the government and Macquarie were reluctant to sign a deal until an application for judicial review was resolved, causing further delay. Macquarie negotiated from the Department: a £10 million break clause in the event that the judicial review prevented the transaction from going ahead between signing and completion; and to a reduction in the accrual rate from 7.7% to 4.5% beyond the end of April. On 30 and 31 March 2017 the High Court heard SDCL's application for judicial review, challenging government's decision to select Macquarie as the preferred bidder. The Court refused permission for a judicial review.

3.24 On 20 April 2017, the Department announced the sale of 100% of GIB shares to Macquarie, with government retaining a stake in a small number of assets it values at around £132 million for later sale.[40] GIB told us the delay and uncertainty throughout the sale process led to the loss of key GIB staff, and affected GIB's ability to continue investing in projects.

Completion

3.25 Completion also took longer than expected, owing mainly to delays in receiving legal change of control consents from third parties. For each month after 1 May, government effectively lost approximately £4 million in value to Macquarie, due to the difference between the locked box accrual rate (4.5% after 1 May) and the 7.7% accrual rate that applied until the end of April. UKGI justified this as it expected the lower rate to apply for a short period to completion, as early as the end of May, and in any event before the longstop date of 31 July. The transaction closed on 17 August, meaning government lost approximately £14.5 million in value between 1 May and 18 August, which UKGI considered was essential to ensuring the success of the transaction. Overall, the transaction took 17.5 months, more than two times longer than indicated in planning.

Sale proceeds

3.26 UKGI developed a valuation range to assess whether the bids met its value for money objective (**Figure 16** overleaf). The Macquarie final cash purchase price is £1,621 million, made up of:

- the final offer price (£1,152 million);
- equity issued between the locked box date and completion (£520 million);
- the accrual charge on the final offer price and new equity (£81 million); and
- less the cost of government buying back the assets to be retained (£132 million).

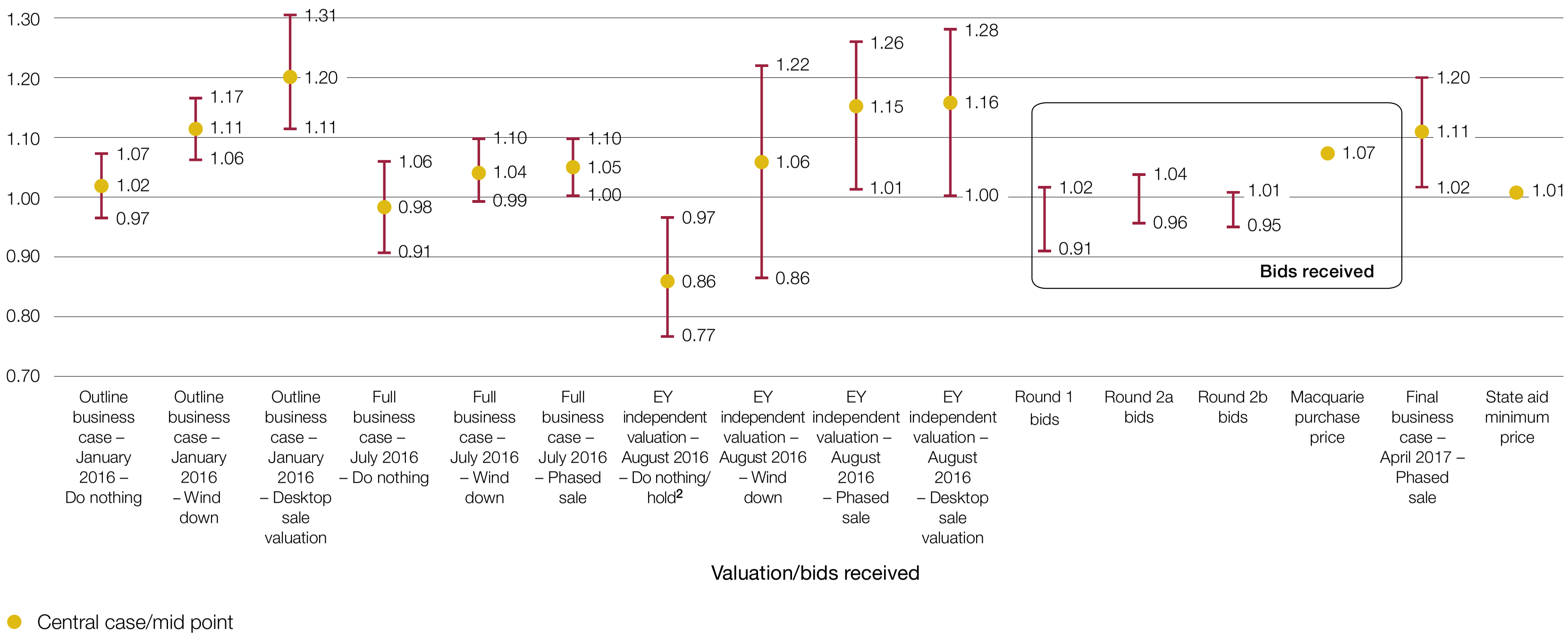
Macquarie will also fund GIB's outstanding commitments of around £500 million, giving a total transaction value of around £2.3 billion. The final purchase price is within but toward the low end of the UKGI valuation range, and represents a £186 million premium on total government funding, excluding estimated financing costs of around £60 million.[41]

40 Written Ministerial Statement announcing the sale, April 2017.
41 The £186 million is the difference between sale price and total government cash into GIB, in cash terms.

Figure 16

Comparison of the UKGI valuation range, bids received, the Macquarie's final purchase price

Macquarie's final purchase price is £63 million (4%) below the 'phased sale' central case and £87 million (6%) above the state aid minimum price



Note

1 The 'price to net drawn capital' ratios are calculated by dividing the price for a 100% stake in GIB (obtained from a valuation exercise or bid received) by the net amount of capital drawn by GIB. The net drawn capital as at sale completion was £1,567 million.

Source: National Audit Office analysis of UK Government Investments documents

3.27 UKGI compared its final valuation range to the 'phased sale' option, which was for GIB to remain in public ownership in the short term to 2018 and make a limited number of new investments, funded through the sale of its debt and fund assets, and limited funding from HM Treasury. The government would then privatise GIB in September 2018 through an initial public offering (IPO), by which time most of its investments would be operational.[42] In comparing Macquarie's price and phased sale value there was potential for more value through waiting, but also risks, depending on for example:

- Success of IPO. UKGI assumed in the 'phased sale' that GIB shares would need to be sold at a 5% (£31 million) discount for an IPO of a 51% stake.[43]
- The degree to which GIB's plan succeeded as assets moved from construction to operation. In February 2017, UKGI estimated that the construction risk foregone by selling rather than waiting was between £67 million and £98 million, including the IPO discount.[44]
- Power price changes. UKGI's estimates reflected the considerable uncertainty around power price forecasts for energy produced by GIB's assets in operation.

3.28 The Department, on advice from UKGI, concluded that the risks of a 'phased sale' outweighed the potential benefits when compared with the sale to Macquarie, and effectively took a lower sale price to avoid the risks of waiting. UKGI's analysis reflected the uncertainty involved by producing a range of values for the phased sale option. It was likely that assets would have been worth more if it waited for a sale; UKGI's central estimate of the range was that phased sale would raise £63 million more than sale to Macquarie, although the high end of its range was £197 million more, and the low end £75 million less, than the amount Macquarie had offered. Avoiding construction risk was one factor in its decision to sell rather than wait; other factors were:

- the need for additional public funding for GIB under the phased sale option;
- the delay to declassification and to receipt of sale proceeds;
- the risks associated with the successful execution of an IPO in September 2018; and
- the risks around gaining an extension of state aid approval beyond March 2018.

42 The government would aim to sell a 51% stake in the September 2018 IPO, selling the remaining stake at a later date.

43 UKGI assumed a discount rate of zero to 10% either side of this central case.

44 From UKGI's Accounting Officer Assessment, February 2017: "The potential values above discount IPO proceeds in September 2018 back to March 2017 at the Government cost of carrying these assets of 11% per annum (based on Green Book methodology) assuming successful delivery of the business plan. In practice, the market discount rate for the construction phase of an offshore wind or bioenergy project is estimated to be in the region of 20 to 25% to reflect the risk inherent over the construction period. The difference between the Green Book derived rate of 11% and market rate of 20 to 25% for the construction period accounts for an estimated £67m to £98m of the potential gap between the Sale option and Phased Sale. It is unsurprising that Government could realise more in the event all projects are constructed to plan."

Declassification and retained assets

3.29 Figure 17 shows the effect on the public sector balance sheet of GIB's declassification. The sale reduces public sector net debt (PSND) by £1.6 billion, and GIB can now borrow and raise capital externally without impacting public sector debt. In November 2016 the Chancellor adopted two new public balance sheet measures, including public sector net financial liabilities (PSNFL). In July 2017 the Office for Budget Responsibility (OBR) noted in its fiscal risk report that balance sheet measures generate risks of 'fiscal illusions'. This is an International Monetary Fund term for any transaction that improves or worsens measured fiscal aggregates without genuinely affecting the health of the fiscal position in the same way. The OBR cited the example of the effect of financial asset sales on PSND, where they lower the measured aggregate without improving fiscal sustainability, noting that this is not the case with PSNFL and that this is one reason why the IMF recommends the broader balance sheet measure. The reduction in PSNFL is £201 million, considerably less than the impact on PSND. Under the 'phased sale' scenario, the impact on PSNFL could have been around £63 million greater (32%) based on UKGI's estimates; this could have been higher or lower depending on the uncertain outcomes from the phased sale option.

Figure 17

Impact of declassification of Green Investment Bank (GIB) on fiscal measures

Fiscal measure	Net impact in 2017-18
Public sector net debt excluding public sector banks (PSND ex)[1]	£1.6 billion decrease (around 0.1% of PSND ex in August 2017)
Public sector net financial liabilities excluding public sector banks (PSNFL ex)[2]	£201 million decrease (less than 0.01% of PSNFL ex in August 2017)

Notes

1 PSND ex is government's preferred measure for reporting on the public finances, and is used as the basis for government's fiscal targets. The measure is narrow, and only includes accumulated liabilities and liquid financial assets (ie cash). It excludes the banks taken into public ownership during the financial crisis, but includes GIB.

2 PSNFL ex is a broader measure that includes all financial assets and liabilities in the National Accounts. PSNFL was one of two measures adopted by the Chancellor in the 2016 Autumn Statement, with the aim of providing a more complete picture of the public sector balance sheet. It excludes the banks taken into public ownership during the financial crisis, but includes GIB.

Source: National Audit Office analysis of UK Government Investments documents

3.30 The Department has retained a 90% interest in five of GIB's assets which Macquarie had valued at a discount to book value (the value of government's interest is around £132 million). The ONS has now declassified GIB from the public sector balance sheet. Government generally prefers to sell whole companies, rather than sell assets, to prevent bidders being able to 'cherry pick' assets. UKGI obtained an independent valuation of the retained assets, and expects to be able to realise the book value of these assets over two to three years. Government will continue to bear the risk associated with these assets and, though it may benefit from a higher sale value once construction of the assets completes, it may also lose money. GIB manages these retained assets for an annual fee; as an incentive it also holds a 10% stake in the assets.

Adviser and transaction costs

3.31 Macquarie has agreed to bear most of GIB's costs incurred during the sale process. Macquarie agreed to cover general transaction costs up to £6.8 million, including the £5 million UBS success fee. Macquarie also agreed to bear all pre-completion restructuring costs, third party sale costs, and up to £200,000 of costs incurred in setting up the Green Purposes Company. The government bears costs to GIB of around £239,000, which alongside UKGI's costs of £4.6 million give total transaction costs of £4.8 million (Figure 14).

Other sale objectives and post-sale legacy

3.32 The government intends GIB to continue contributing to green financing to help the UK meet its climate change obligations and commitments.[45] The Committee on Climate Change has estimated that the UK must invest around 0.1% of annual GDP in infrastructure to meet the Climate Change Act 2008 objectives.[46] Macquarie intends GIB to become its platform for investments in green infrastructure projects in the UK and internationally. Macquarie has made a series of public, but non-binding, commitments regarding the future of GIB and its role in the green economy, including:

- commitment to GIB's green objectives and the Green Principles;
- continue to invest across sectors such as energy efficiency, biomass, energy from waste, onshore wind, offshore wind, solar, tidal and energy storage;
- target GIB to invest, or arrange new investment, over £3 billion in the three years following completion;
- to maintain GIB's independence, brand, and Edinburgh office; and
- to support BEIS's UK Climate Investments (UKCI) pilot.

45 Department of Business, Energy & Industrial Strategy, *UK government's sale of Green Investment Bank completed*, August 2017. Available at: gov.uk

46 Letter from the Committee on Climate Change to the National Infrastructure Commission, March 2017. Available at: www.theccc.org.uk/wp-content/uploads/2017/03/170328-CCC-letter-to-NIC.pdf

3.33 In signing the transaction agreement with the Department, Macquarie agreed to retain GIB's green objectives. The special share arrangements (paragraph 3.6) aim to safeguard GIB's green principles after it leaves public ownership. The trustees of the Green Purposes Company have powers to prevent changes to GIB's green purposes. This does not extend to control of, or input to, investment decisions: the future direction of GIB's investment focus and its relationship with the trustees remain untested. The trustees have negotiated an ongoing funding agreement with Macquarie, which they consider will allow them to act independently and to protect the green purposes through either legal action or publicity should it become necessary.

3.34 GIB was a highly prominent and significant element among a number of the government's green finance interventions. The Department intends that GIB, in private ownership, will continue to play a role in delivering the government's energy policy goals. The government has recently announced steps regarding green financing policy, reflecting the scale of investment required to deliver the UK's climate change obligations, and the changing nature of the green financing market. In September 2017 the Department published a Clean Growth Strategy setting out its proposals for decarbonising all sectors of the UK economy through the 2020s. As part of the Strategy it has established a Green Finance Taskforce, with membership from across the green sector including the Head of Green Investment Group, Europe.[47]

47 Green Investment Group is the new name of Green Investment Bank, under Macquarie ownership.

Appendix One

Our audit approach

1 This study examined whether the Department for Business, Energy & Industrial Strategy (the Department) has achieved the objectives of the UK Green Investment Bank (GIB) intervention, and whether UK Government Investments (UKGI) has achieved value for money in the sale. We reviewed whether:

- the creation was structured effectively to maximise outputs;
- the organisation managed and assessed outputs suitably;
- the options and timings were assessed appropriately;
- the sales process was effective in supporting the objectives of the transaction; and
- the proceeds were maximised.

2 **Figure 18** overleaf gives our evaluative criteria. Our evidence base is described in Appendix Two.

Figure 18
Our audit approach

The objective of government

In October 2012 the government established the UK Green Investment Bank (GIB) to "accelerate the UK's transition to a greener, stronger economy" by investing in green projects.

In June 2015 the government announced plans to bring private capital into GIB and in March 2016 it launched a process to sell GIB into private ownership.

How this will be achieved

The Department gave GIB a mission to "accelerate private sector investment in the UK's transition to a greener economy" and to do this by creating an "enduring institution" to invest in specific sectors and demonstrate profitability.

Our study

The study examines the lifecycle of GIB as an intervention, and whether value for money was secured.

Our evaluative criteria

Creation and set up
Rationale and set up, objectives and plans for evaluating progress.

Effectiveness of the GIB
Investment activity and performance against objectives.

Sale of GIB
Preparations for the sale, process, proceeds and outcomes.

Our evidence

(see Appendix Two for details)

We interviewed officials in GIB and the Department and reviewed their advice to ministers.

We reviewed the business cases and analysis performed prior to the creation of GIB.

We interviewed officials in GIB and the Department and reviewed their advice to ministers.

We reviewed performance documentation, annual reports, and evaluation work.

We interviewed officials in UKGI, GIB and the Department and reviewed their advice to ministers.

We reviewed the analysis provided by UKGI and advisers and also interviewed them.

Our conclusion

The Department set up GIB with a clear mission that provided a sound basis for it to succeed. It quickly stimulated investment in the green economy, particularly in offshore wind where it was addressing market failures and returns on the portfolio are forecast to exceed expectations. However, GIB's impact in other sectors is less certain and in deciding to sell the Department lacked clear criteria or evidence to show that GIB had achieved its intended green impact. The Department nonetheless concluded that market failures had largely been addressed, and decided to sell.

The sale was complex and took longer than expected, with the Department's declassification objective creating tensions with the need to secure value for money for the taxpayer. Even so the final sale price was within UKGI's expected valuation range, at the lower end. GIB continues as an institution with private funding and green commitments, but Macquarie has no legal obligation to ensure GIB will keep focusing on its green objectives and be an 'enduring institution' for years to come. Ultimately the value for money of the intervention will only be seen over time. A key test will be whether the Government needs to intervene again in this way to stimulate growth in the green economy and to help it achieve its climate change commitments.

Appendix Two

Our evidence base

1 Our conclusion was reached following an analysis of evidence collected between September 2016 and August 2017. Our main methods are outlined below:

Document review

We reviewed key documents including:

- public information relating to the creation and operation of the Green Investment Bank (GIB) (such as annual reports);
- documents relating to GIB's internal policies and processes;
- the original GIB business cases and other documents relating to the set-up;
- submissions to ministers seeking authority to proceed;
- UK Government Investments Ltd (UKGI) board papers and minutes;
- contracts between UKGI/GIB and their advisers;
- information obtained from the transaction data room;
- the UKGI valuation model and independent valuation report; and
- valuations and strategy papers prepared by UKGI's advisers ahead of the sale.

Interviews

2 We undertook interviews with officials at UK Government Investments, GIB, the Department for Business, Energy & Industrial Strategy and HM Treasury. We also discussed the sale with Bank of America Merrill Lynch, UBS, Macquarie, and with GIB Board members including the chairman.

3 We also engaged with the Sustainable Development Capital LLP, the trustees for the Green Purposes Company, a number of GIB's non-executive directors, the Green Alliance and the Aldersgate Group.

Appendix Three

Options identified

1 The options discussed in Figure 12 are summarised below.

Options for alternative means of public funding for Green Investment Bank (GIB)

Options	Description
Do nothing[1]	GIB continues in 100% government ownership, but with no ability to enter into commitments after 31 March 2016.
Recycling of capital	GIB is 100% owned by HM Government but assets are sold to the private sector and profits reinvested.
Sale of GIB shares	Privatisation of GIB as a single entity (majority sale – sale of equity in GIB to one or more private investors).
Hybrid structure	Split of GIB into a) GIB private (owned by private investors, who take on the assets that appeal to them) and b) GIB public (remaining assets where risk is still considered to be high by the private sector).
Fund structure	GIB becomes only an asset manager and does not invest its money in projects anymore.
Wind down[2]	Sell GIB assets once construction is finished to maximise price and close down the company after this.
Change in policy remit	GIB was set up to mobilise private capital where there are market failures and to provide finance on fully commercial terms. If policy remit changes, then GIB would not necessarily be an appropriate entity to carry out policy requirement; therefore, GIB would change to reflect new policy remit.
Phased sale[3]	GIB sells its debt and fund assets over two years and its equity assets, combined with the fund management platform, through an Initial Public Offering (IPO) in September 2018.

Notes

1 A 'do nothing' option is a mandatory part of the economic appraisal under the Treasury's Green Book guidance.

2 The 'wind down' option was also referred to as the 'accelerated sale' option.

3 The 'phased sale' option was also referred to as the 'refocused GIB' option.

Source: UK Government Investments Outline Business Case

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