This briefing for the Economy, Energy and Tourism Committee sets out the development of the newly established Green Investment Bank, and describes some of its early activity.

(Image courtesy of Green Investment Bank)
GREEN INVESTMENT BANK: TIMELINE

- **March 2010**: UK Budget commitment £1bn
- **May 2010**: UK Elections
- **March 2011**: Environmental Audit Committee reports
- **March 2011**: UK Budget GIB capitalised with £3 billion
- **December 2011**: Priority sectors for GIB announced
- **December 2011**: Interim body, UK Green Investments announced
- **March 2012**: Edinburgh selected as HQ
- **May 2012**: GIB set up - Public body. Chair appointed
- **October 2012**: Chief Executive appointed
- **April 2013**: Enterprise & Regulatory Reform Act enshrines green purpose of bank
- **June 2013**: Spending Round GIB provided additional £800m
- **June 2013**: First Annual report includes details of 11 transactions in 2012-13
- **July 2013**: First Scottish investment announced at Tomatin distillery
- **October 2012**: State Aid Approved by European Commission
THE CREATION OF THE GREEN INVESTMENT BANK

In June 2010 the Green Investment Bank Commission (an “independent group convened by the Chancellor of the Exchequer”) indicated that “£550 billion could be required for investment in supply chains and infrastructure in order to meet UK climate change and renewable energy targets between now [2010] and 2020”. In contrast, the commission stated, only £11 billion was invested in Britain’s “dash for gas” during the 1990s, which was considered transformational at the time. The commission suggested that without scaled-up government intervention the UK’s carbon targets would be unachievable, and it recommended the establishment of a green investment bank “in statute and with a clear mandate”.

In March 2010 the UK budget had also included a commitment to set up a Green Investment Bank (GIB) with a mandate to invest in low carbon infrastructure, backed by £1 billion of government money, funded by the sale of public assets. Following the election the October 2010 Spending Review subsequently included funding of £1 billion in 2013-14 for the Green Investment Bank.

Press commentary on the Spending Review indicated significant debate within the coalition government (for example Financial Times 10 February 2011). This included debate on the proposed powers of the bank with Liberal Democrats arguing for pushing for “a fully-fledged bank that could issue bonds and underwrite loans”, whilst the Treasury’s preference was “to limit borrowing capabilities, since the liabilities would sit on the government’s balance sheet as it aims to reduce the deficit”.

The House of Commons Environmental Audit Committee published a report on the Green Investment Bank (March 2011), and reinforced the arguments for action, stating:

“The scale of investment needed is unprecedented: most estimates range between £200 billion and £1 trillion over the next 10-20 years. Traditional sources of capital for investment in green infrastructure can only provide £50 to £80 billion up to 2025, leaving a funding gap running into hundreds of billions of pounds.”

The committee also set out the advantages of operating a “green investment bank not a fund”:

- A bank is able to raise its own finances
- A bank is able to raise finance quickly
- A bank will bring in expertise
- A bank would signify independence and permanence
- A bank can offer a wide range of interventions
- A bank would be able to fill the gap in the market for government-backed bonds

In the March 2011 budget, the UK Government announced that the Green Investment Bank would be capitalised with £3 billion (for the period through to March 2015), and would begin operations in 2012-13. The Government stated that adding in private finance this “should mean that there is in the region of an additional £18 billion of investment in green infrastructure by 2014-15 as a result of the GIB” (implying £5 private investment leveraged from every £1 from the GIB). The Government also indicated that GIB would have borrowing powers “from 2015-16 and once the target for debt to be falling as a percentage of GDP has been met”.

Further debate within government was reported (Financial Times 16 May 2011) concerning the focus of the bank, between a desire for a focus on “existing technology such as solar, wind
farms and energy efficiency” versus “more risky fledgling technologies such as wave and tidal power”. Details of priority sectors were published by the Department for Business, Innovation and Skills (BIS) in December 2011 as being: offshore wind power generation; commercial and industrial waste processing and recycling; energy from waste generation; non-domestic energy efficiency; and support for the Green Deal. BIS also announced the creation of an interim body UK Green Investments (UKGI), to “drive investment in the UK’s green infrastructure until the Green Investment Bank is formally established”. The criteria for determining the location of the new bank were also set out.

Location decision

Following a competition run by BIS it was announced in March 2012 that the headquarters of the bank would be in Edinburgh (which would host the corporate headquarters, along with the asset management and back office functions), alongside a London office (housing the bank’s major transactions operation). Edinburgh was among 32 interested locations to submit ‘self – assessed’ bids (including Renfrewshire, the only other Scottish location). Following a review against the set criteria including the ability to recruit and retain the necessary specialist staff and ability to engage effectively with the transactions ecosystem, a points scoring system was used by BIS. London came out top, followed by Edinburgh, then Manchester.

Setting up the organisation

In May 2012 the bank was established as a public company, at which point Lord Smith of Kelvin was appointed as Chair. In September 2012 Shaun Kingsbury was appointed as Chief Executive along with six non-executive directors. State aid approval for the bank was provided by the European Commission in October 2012 allowing it to make investments on commercial terms in its priority sectors, but also a number of other sectors: Biofuels for transport; Biomass power; Carbon capture and storage; Marine energy; and Renewable heat. Finally the Bank was officially launched in November 2012 at Heriot Watt University. At this time the Scottish Government (2012) established a Scottish Green Investment Advisory Group to identify and support Scottish bidders to make the strongest possible case for GIB funding. As at the end of March 2013 the Bank had recruited 74 employees across the two locations.

Legislative basis

The legislative framework for the Green Investment Bank is set out under the terms of the Enterprise and Regulatory Reform Act 2013.

The Act describes the “green purposes” of the bank as follows:

“The green purposes are—
(a) the reduction of greenhouse gas emissions;
(b) the advancement of efficiency in the use of natural resources;
(c) the protection or enhancement of the natural environment;
(d) the protection or enhancement of biodiversity;
(e) the promotion of environmental sustainability”

The legislation also seeks to ensure operational independence for the GIB, enables it to receive funding from the government, and ensures reporting and disclosure as though it was a quoted company (even if it is not quoted on the stock market). This includes reporting on Directors’ remuneration.
PROGRESS TO DATE

The GIB annual report (June 2013) reported that in the first five months of activity the GIB:

- Committed funds to 11 transactions which are expected to reduce UK greenhouse gas (GHG) emissions by 2.5Mt carbon dioxide equivalent (CO\textsubscript{2}e) per year

- Invested £635m, alongside a further £1.6 billion of private sector funding, giving a ratio of approximately 1 to 2.5 for GIB/private finance (rounded up to £1 GIB for every £3 private finance in the GIB annual report)

The GIB measures its success against what it terms a “double bottom line”:

- **Green impact** – the return on investment as against one of the five “green purposes” as set out in the Act

- **Financial return** – the GIB operates as a for-profit, commercial organisation. This is intended to allow the bank to build credibility in the market in order to act as a catalyst for further private sector investment, and to generate funds to reinvest at a later date.

The GIB can invest in projects in the form of equity, debt and guarantees. However equally important is what it states it does not do, which includes providing soft loans, grants or regional assistance, acting as a "lender of last resort", or taking high risk for low reward.

A minimum of 80% of the GIB’s investments are targeted towards the priority sectors of:

- Offshore wind (OSW)
- Waste recycling
- Waste to energy
- Non-domestic energy efficiency (NDEE)
- Support to the Green Deal

Up to 20% of the GIB’s investments will be used to fund projects in other permitted sectors such as:

- biomass power,
- carbon capture and storage,
- marine energy and
- renewable heat.

The GIB’s first 11 deals

The 11 transactions completed by the GIB by the end of March 2013 are listed below. These included a £100m loan to support the conversion of three of six generating units at the Drax power plant from coal to biomass, £125m funding to the Green Deal Finance Company to support residential energy efficiency, and £46m/£57m funding to support offshore wind farms at Walney (NW England) and Rhyl Flats (N Wales) respectively.
### Sector | Deal | Date | GIB commitment (£m) | Total Transaction (GIB + 3rd Party, £m)
--- | --- | --- | --- | ---
Waste | Foresight | Nov-12 | 50 | 100
Waste | Greensphere | Nov-12 | 30 | 60
NDEE | SDCL | Nov-12 | 50 | 100
NDEE | Equitix | Nov-12 | 50 | 100
Waste | Drax | Dec-12 | 100 | 990
OSW | Walney | Dec-12 | 46 | 325
Waste | Wakefield | Jan-13 | 30 | 122
Waste | Gloucester | Feb-13 | 47 | 185
Green Deal | Green Deal | Mar-13 | 125 | 181
OSW | Rhyl Flats | Mar-13 | 57 | 57
NDEE | Aviva fund | Mar-13 | 50 | 100
Total | | | 635 | 2,320

None of the above investments are specifically within Scotland. However the GIB reported its first Scottish investment in July 2013. This involved £580,000 to help finance a new biomass boiler at Tomatin Distillery, near Inverness, part of a £1.2m investment. This came via the £50m Equitix managed Energy Saving Investments fund (ESI). C0₂e emissions are expected to be cut by over 96,500 tonnes over the 20 year life of the investment.

Finally, in the June 2013 Spending Round the GIB was allocated £800m for 2015-16 (with the ability to borrow up to £500m of the £800m total through the National Loans Fund)

### Progress against climate targets

The lifetime impacts of the first 11 investments listed above include the following:

- Reduction in GHG emissions - 42.7m tonnes C0₂e
- Material consumption avoided – 5.3 m tonnes
- Waste to landfill avoided – 0.33 m tonnes

The UK climate change targets are set out in five year periods as below (HM Government 2011)

| | Millions of tonnes C0₂ e |
|---|---|---|
| | Total budget | Average annual budget |
| 1st carbon budget (2008-12) | 3,018 | 604 |
| 2nd carbon budget (2013-2017) | 2,782 | 556 |
| 3rd carbon budget (2018-2022) | 2,544 | 509 |
| 4th carbon budget (2023-27) | 1,950 | 390 |

To allow for some comparability, the GIB also reports on the anticipated reductions in emission of its investments during the third carbon budget 2018 to 2022. As Figure 1 (below) illustrates the average annual GHG emissions reduction expected from the first 11 GIB investments
between 2018 and 2022 is 1.6 Mt CO2e, which equates to just over 3% of the average annual UK reduction target between the 2\textsuperscript{nd} and 3\textsuperscript{rd} carbon budgets.

**Figure 1: Impact of first 11 GIB investments and the UK average annual GHG emission reduction targets for the third carbon budget period (2018 to 2022)**

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**How is the green impact measured?**

The basic principle adopted by the GIB is that it compares the impact of the investment to what would have happened in its absence. Essentially it calculates

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\text{Green Impact} = (\text{Baseline impact}) \text{ less } (\text{Project impact})
\]

The appraisal measures the impact of the whole investment where construction not yet started (on the principle that GIB investment is additional, draws in private finance and enables the whole project to proceed). However it measures a relevant proportionate share where construction is underway, complete or the asset is already operating. Where a third party is managing funds, it does not attribute impact until funds are drawn down to projects.

The GIB points out that figures are “not susceptible to exact and certain measurement” and rely on the application of “reasonable interpretation and professional judgement”

Details of the methodology for calculating green impact are set out in the [GIB's Green Impact Reporting Criteria 2012-13](#). The appraisal criteria are based on guidelines provided by various governmental and independent sources. For example GHG emissions use guidelines from the Government’s Interdepartmental Analyst Group (IAG), together with guidance from The GHG Protocol for Project Accounting Guidelines.

Amongst its other duties the GIB’s Green Committee of the Board ensures that green performance is independently assured by a third party. In 2012-13 this assurance was carried out by PricewaterhouseCoopers LLP.
BORROWING POWERS

One of the key issues for the future of the GIB is the extent of its powers and ability to operate as a ‘bank’. The Environment Audit Committee (2011) expressed strong views

“The Green Investment Bank must not be just another ‘fund’ to disburse Government money, but a ‘bank’ able to raise its own finance and fill a gap in the market for government-backed bonds, bring in banking expertise and offer a range of commercially driven interventions—loans, equity and risk-reduction finance.”

It further stated that

“If the Government is going to be able to demonstrate that it is the ‘greenest ever’, it must take advantage of the current momentum behind the Green Investment Bank, and set up a Bank with the potential to deliver the scale of investment required, significantly helping to put us on the path to a low-carbon economy and achieving our challenging emission reduction and renewable energy targets. It is the firm view of this Committee that if the Green Investment Bank were unable to raise private finance there would be little if any prospect of the Government meeting those goals.”

As indicated above the UK Government had previously stated that the GIB would have borrowing powers “from 2015-16 and once the target for debt to be falling as a percentage of GDP has been met”. However the office for Budget Responsibility (OBR) estimate that the peak of public sector net debt as a percentage of GDP is likely to be 2016-17 (Fiscal sustainability report July 2013).

In this regard another issue for the GIB has been its status in the national accounts and whether its investment would be classified as public spending. The Office for National Statistics (January 2013) concluded that as the bank is unable to borrow on the market, it should be classified as a public body rather than a financial intermediary.

FURTHER PARLIAMENTARY SCRUTINY

The House of Commons Environmental Audit Committee is currently conducting an inquiry into green finance. As part of this inquiry the Committee will also be visiting the Green Investment Bank’s Edinburgh Headquarters on 12th September to question the Bank’s senior executives on its first year of operations.
SOURCES:


Financial Times (16 May 2011) Ministers divided over remit for green bank. Available at http://www.ft.com/cms/s/0/2af332c2-7fd1-11e0-b018-00144feabdc0.html#axzz2aQl9ZJZY


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