

The uncertain future of the UK Green Investment Bank

Blog post by Adviser Tom Smith, 27 January 2017

It would appear that Macquarie's status as preferred bidder for the Green Investment Bank, a UK government owned renewable energy investor, is under threat. While the sale was supposed to have been finalised at the end of 2016, Climate Change Minister Nick Hurd confirmed on Wednesday that the government has not taken a final decision on the structure of the sale or whether Macquarie's bid satisfies the criteria initially set out when the sale was announced. The sale is now being pulled into the UK's renewed industrial strategy debate.

Members of the UK parliament were questioning Hurd over whether the Bank would continue to invest in early stage projects where there is currently less appetite amongst private capital markets. At the back of their minds is probably the example of the privatisation of the Industrial and Commercial Finance Corporation (ICFC), a government owned vehicle for growth investment founded in 1945 that, when privatised as today's 3i Group, shifted its focus to lower risk, later stage management buy outs. This is often cited in industrial policy debates inside government as a commercial success but a policy failure.

So MPs have also been looking for guarantees that any capital released from the sale is invested exclusively in the UK and that the headcount at the bank's Edinburgh headquarters is maintained. The establishment of a number of Special Purpose Vehicles by the bank at the end of 2016, which could help facilitate a sale of mature assets has piqued MPs interest further, and even accusations of asset stripping. A similar line of argument helped derail the proposed sale of the Land Registry last year, which was ultimately cancelled by ministers.

The sale was triggered by former Business Secretary Sajid Javid, a self-confessed Thatcherite who never liked the bank and probably saw the 3i outcome as one he could live with. His successor, Greg Clark has more instinct for thinking through some of the trade-offs and balances. He is much more likely to move pre-emptively to assuage the concerns being raised by MPs.

Hurd noted in the debate that the Bank's portfolio "should not be preserved in aspic forever". But he also reflected the political and policy case for a thought through policy or reinvestment and focus. Placing more stringent conditions on the reinvestment of realised capital, learning from the legacy of the ICFC, could allow greater access to capital that privatisation would bring, while meeting the aspirations of the industrial strategy to invest in new, green, developments.