AMENDMENT TO PART 1 OF THE ENTERPRISE AND REGULATORY REFORM BILL 2012 ESTABLISHING THE GREEN INVESTMENT BANK:

Borrowing from the Capital Markets

Version 1.3 November 2012

Briefing note:

The ability of the GIB to borrow is critical to its success. To be effective it must be allowed to borrow from the capital markets − otherwise it will be nothing more than a government-run fund.

As a Companies Act company, the power for the GIB to borrow is theoretically 'enabled,' but this is not the same thing as being 'allowed' to borrow in practice. The Government's update on the GIB from May 2011 stated that the GIB will not be allowed to borrow until 2015 and only once the UK's national debt is declining as a percentage of GDP. This is now not expected to happen until 2017 at the earliest, and if the European economic crisis deepens then it could be even longer before the GIB is allowed to borrow. There is a high level of concern however that this constraint has been imposed on the GIB by senior civil servants in the Treasury who do not ever want the GIB to borrow independently due to ideological opposition to public banks, and are implementing a classic delaying tactic. Additionally, the Government has not yet taken the necessary steps under European law (State aid notification) for the Bank to be allowed to borrow any time soon. This State aid constraint prevents all types of borrowing - even borrowing from Government.

As it stands, the effect of the legislation and GIB company constitution is that the GIB will not be allowed to borrow from the capital markets on enactment, with no certainty that this will ever change in practice. There is a provision in the Bill to enable the GIB to borrow from the National Loans Fund but this is not the same as the GIB being allowed to borrow from the capital markets, which would mean borrowing independently and the ability to leverage far higher levels of private sector investment into the low carbon economy.

Amending the legislation establishing the GIB is the only way to overcome these barriers and provide certainty and visibility to investors and other stakeholders that borrowing from the capital markets will ever materialise in practice.

The debate about borrowing occurs against the backdrop of increasing pressure on the government to adopt new measures to stimulate growth. Allowing the GIB to borrow is also critical to ensuring the Bank can fulfil it's enormous potential as a catalytic driver of green growth. The UK is now in a double-dip recession which is mainly due to a lack of investment in the economy. Of the many billions that need to be invested in renewing the UK's infrastructure, analysis by E3G for Transform UK demonstrates that 70% of this is in green or green-enabling technologies. The GIB is critical to unlocking this investment and delivering growth. Investor confidence in the private banks is at an all-time low. The GIB could help 'plug' this gap. Through issuing bonds the GIB can create a 'linking institution' to draw down the vast pools of institutional investor capital held in the capital markets into UK infrastructure projects.

But the coalition Government has ruled out allowing the GIB to borrow in the foreseeable future. It has maintained this position even as government borrowing costs have reached a record low. The main argument cited publicly for not allowing borrowing is its impact on Public Sector Net Debt. This constraint significantly limits the ability of the GIB to unlock significant investment in the UK economy.[1]

By way of illustration, the GIB has currently been allocated £3 billion in start up funding. The Government has estimated this could unlock a further £15 billion in private sector co-investment.[2] However this is a

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[1] [1] To give some context as to how erroneous this argument is, a 2009 ONS Report lists the current government off balance sheet liabilities could be reclassified as on balance sheet (and so impact Public Sector Net Debt) amount to upwards of £3.7 trillion. This includes £1 trillion − £1.5trillion to underwrite Lloyds TSB and Royal Bank of Scotland liabilities. Lloyds TSB and Royal Bank of Scotland are currently classified as off balance sheet on the basis that they are temporary liabilities. It could equally be argued that the GIB is a temporary liability until such time as it builds a track record, acquires sufficient reserves and obtains a rating.

[2] Speech by Nick Clegg in April 2011, http://www.reuters.com/article/2012/04/12/idUSL6E8FC2E420120412

fraction of the £200 billion that needs to be invested in energy infrastructure alone out to 2020. Were the GIB to be allowed to borrow at a modest ratio of 1:6 in the first instance, this would boost its capital base to £18 billion. This could (according to the Government's own calculations) then unlock £90 billion in private sector co-investment − or nearly half of the capital needed to decarbonise the energy system by 2020.

Of the public banks established in other European countries, all are allowed to borrow independently from the capital markets. For example:

- Caixa Geral de Depositos in Portugal leverages its equity by x17.
- ICO in Spain leverages its equity by x24.
- KfW Bankengruppe in Germany leverages its equity by x28.
- Bank Nederlandse Gemeenten in the Netherlands leverages its equity by x59.

If the GIB is not allowed to borrow independently, the Government will leave the UK at a competitive disadvantage. Unlike public banks in other European countries, the GIB will have no opportunity to bolster its balance sheet through issuing GIB bonds and so scale up its investment in the UK economy. This situation can only be reversed by a legislative amendment similar to the one set out in this document. The effect of that amendment is to require the Government to allow the GIB to borrow from the capital markets no later than June 2015, while leaving open the possibility of earlier borrowing if such a political decision to stimulate growth was made. As is proper for a Bank that may be classified as on the public balance sheet, the amendment preserves the ability for the Treasury to prescribe some limitations on the amounts the Bank may borrow. The amendment also requires the filing of State aid notification with the European Commission by a fixed date to enable borrowing to happen soon.

ANNEX 1

AMENDMENT:

In **Clause 4** (**"The UK Green Investment Bank: financial assistance"**) insert the following sub-clauses after sub-clause (6) –

"

(7) *It is the duty of the Secretary of State to provide the European Commission with State aid notification concerning the intention to allow the Bank to borrow, including borrowing from the capital markets.*

(8) *The duty in subsection (7) must be fulfilled no later than 31st December 2013.*

(9) *In the event the European Commission approves the State aid notification concerning borrowing, it is the duty of the Treasury and of the Secretary of State to permit the Green Investment Bank to begin borrowing from the capital markets no later than 30th June 2015, or, if State aid approval has not been received by that date, no later than 1 month from the date of approval."*

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