Dear Chair,

GOVERNMENT RESPONSE TO PAC REPORT: ‘THE SALE OF THE GREEN INVESTMENT BANK’

Thank you for your letter of 15th October. Further to my Department’s response through the Treasury Minute of May 2018, I am pleased to provide further information to the Committee, to clarify progress on implementing four recommendations in the Committee’s report, The sale of the Green Investment Bank.

Recommendation 1

PAC comment – October 2018

The Committee found that the Department did not know to what extent GIB had achieved its intended green impact, or whether overall it achieved as much as it could. You agreed that the Department should put in place a robust evaluation framework for each company it creates, but your response refers to existing Treasury guidance around governance frameworks between shareholder and company. This does not address how you could be confident, through a robust evidence base and suitable methodologies, that companies you create in future are doing what you set them up to do.

PAC request – October 2018

Please could you provide further information on how you will ensure that, for future interventions, you will establish a framework allowing you to evaluate formally, over time, whether the original policy objectives are being met.

Government Response

The Department requires policy and project teams to adhere to the Government’s Functional Project Delivery Standard (‘the Standard’) which launched in August 2018. The Standard sets expectations for direction and management of programmes and projects, to ensure the timely and cost-effective delivery of government policy and business objectives. The Standard sets out specific guidance for monitoring and evaluating project delivery, with
respective to outcomes and benefit realisation, which tracks whether the original policy objectives were met and to what extent.

The Department recommends that partner organisations, which includes companies set up by Government, should work with policy teams to produce monitoring and evaluation plans as part of their business case. These plans include developing evaluation questions, which reflect the policy objectives and frame the design of the evaluation, analysis and reporting. They also serve to identify policy decision points, that will be informed by evidence from monitoring and evaluation.

The Department reviews and collates information about partner organisation’s monitoring and evaluation and recommends all evaluation reports to be additionally reviewed by independent evaluation experts prior to publication, encouraging the use of the independent Departmental peer review group at keys stages of the evaluation, particularly at the design stage.

The Department expects that the project or programme managers carry out a closure review. By conducting this review, the Department and key stakeholders can determine the programme or project’s success. The Project Manager is required to ensure a review is undertaken to assess the extent to which benefits realisation and operational performance have met, and are likely to continue to meet, the objectives and expectations stated in the business case.

Recommendation 2

PAC comment – October 2018

You agreed that the Department should be clear about, and justify, what commitments you are prepared to water down in order to secure a sale and what impact this may have on future benefits for British taxpayers. You say this was the case with GIB because the Department sought and received assurances about investment. This does not address our recommendation that the Department should think ahead about where it would be prepared to give ground and how this might affect overall sale outcomes, including any potential impact on other sale objectives.

PAC request – October 2018

a. Please could you explain how, in future sales, the Department will be able to demonstrate that it has pressed buyers as hard as possible on the commitments they make.

b. The Committee’s recommendation included that the Department should have sought explicit assurances as to the quantum of future investment in the UK. This is important because the intervention was originally set up as the UK Green Investment Bank, in order to help the UK meet its climate change goals.

Government Response

The Government accepted the Committee’s recommendation in its report, agreeing that Departments should set clear objectives for asset sales, which could include objectives
where specific commitments are sought from bidders. The Government's response agreed that the Department should be clear which objectives are primary and secondary; this includes considering whether some objectives could be amended or waived during the sale process and what the impact of these changes might be. In designing and running a sale process, Government employs a number of methods including maintaining competitive tension in the process to ensure that it fully tests the market and the offers it receives from bidders.

In the specific case of the sale of the GIB, the Government set objectives at the start of the sale process, during the development of the business case for the sale, and maintained those objectives throughout the sale process. These objectives did not limit investment to projects within the UK. The bids received from potential buyers were assessed against all the sale objectives and the Government selected the bid which best met all of the objectives, and as part of the subsequent negotiation, succeeded in obtaining a higher price from Macquarie and more detailed commitments around GIB's green objectives. The Government was satisfied that the deal with Macquarie fully met the sale objectives, without any watering down.

The Committee recommended that the Government should have sought and received explicit assurance as to the quantum of future investment in the UK. The objective relating to continued green investment set by the Government for the sale of the GIB did not limit green investment to the UK; one of the benefits of the policy to move GIB to the private sector was that it would be able to expand internationally to tackle the global challenge of climate change. The Government did ask bidders to confirm their commitments to GIB’s green values and investment principles and set out how they proposed to protect them.

The successful bidder, Macquarie, committed to a target of £3 billion of new investment in green infrastructure projects over the next three years, and to adopt GIB as its primary vehicle for principal investment in green projects in the UK and Europe. The Government was satisfied with this commitment, recognising the challenge in making more specific commitments on the quantum of investment, since this depends on appropriate investible projects being identified and GIB (now the Green Investment Group) successfully winning those projects in a competitive investment market. The objectives set for the sale of the GIB focussed on ensuring GIB would continue to be active in supporting green investment, rather than setting specific targets.

**Recommendation 3**

**PAC comment – October 2018**

You agreed with the Committee’s recommendation that the Department should seek to evaluate its assumptions about valuing GIB’s assets during construction and thank you for your letter on this setting out the Department’s approach to valuation during the sale. The recommendation was, however, looking to the Department to evaluate how its assumptions during the sale have performed in the fullness of time, i.e. did the construction risk you priced-in for a number of assets actually crystallise. This would provide the Department with useful experience and information to inform how it makes assumptions in future asset sales.
PAC request – October 2018

Please could you write to the Committee setting out how you propose to review the performance of the assumptions, with an indicative timetable.

Government Response

As stated in the Government’s Treasury Minute response to the Committee, the Government agrees that clear objectives for asset sales should be set and decisions made, based on analysis, regarding concessions that can be made or when the sale should be withdrawn.

The Government apprised the Committee of the steps taken by the Department and UK Government Investments in respect of the valuation of GIB and its assets during the sale process, including through following NAO recommendations on best practice in valuation such as seeking assurance on valuation assumptions from independent experts. For the GIB sale, this exercise confirmed that there was no reason to disagree with the approach taken or assumptions used. These were based on established methodology on valuation, including Green Book methodology.

The Government cannot accurately assess whether the risks that were considered during this phase did actually crystallise and to what extent – for example whether those projects which were still under construction were subject to delays or cost overruns. The Government does not have the right of access to the information that would allow such a review to take place, much of which will be commercially sensitive. This information will be held by Macquarie, the Green Investment Group (GIG), the project developers or other investors in these projects. GIG, under Macquarie’s ownership, or other co-investors may also make (or have made) decisions on assets during their construction period which would have been different to decisions made by GIB and would therefore be exposed to different risks.

While the Government considers that it would not be possible to attempt to analyse the performance of the specific assumptions on individual assets made during the sale, it has ensured that it has undertaken a lessons learned exercise on the valuation process, which included taking learning from the external review of assumptions, which will be useful in future valuation work.

Recommendation 4

PAC comment – October 2018

The Committee recommended that government must clearly define relevant terms, such as ‘enduring institution’, so it can monitor performance and evaluate sale options. I note that you still consider that your definition of "enduring institution" was clear, even though the Committee found a lack of clarity around this term. Your response indicates that specific timetables for how long an institution can ‘endure’ would depend on a range of factors but goes no further than that.
Have you not considered that, in setting objectives, you could articulate the criteria you would use in assessing the extent to which those objectives have been met? Please could you explain how you will ensure that the Department will, in future interventions, develop a clear statement of what success looks like in relation to the objectives that it sets.

**Government Response**

With regard to its use of the term, 'enduring institution'; the Government accepts the Committee's comment that it could have chosen to define the term differently including setting specific criteria.

As referred to in the response to PAC Recommendation 1, the Government has stated that those delivering Programmes or Projects within an organisation must adhere to the requirements of the Standard and the frameworks for implementing business strategies and initiatives.

Clear objectives are vital for the successful delivery of a policy, programme or project and the Government considers them to be a vital part of the initial planning process for intervention, setting out the critical success factors. By adopting the Standard, the Government believes that projects should set out in their business case their link to policy and objectives, and this should be regularly reviewed to ensure the objectives are still appropriate and current and can be delivered by the project, within the constraints of time, cost, quality, scope benefits and risk.

The Standard also sets out clear guidance for the closure and review of projects, insisting they should be closed in a controlled way when a project has been completed as planned or terminated early. The closure review must include an assessment of performance against current business plans and the extent to which objectives are being met. Continued, post closure reviews may also be appropriate, to ensure ongoing delivery, following handover of responsibility of actions and benefit tracking to the relevant organisation for delivery.

I hope this letter clarifies the Government's ongoing commitment to Project Delivery, by setting clear expectations for all Departments to adhere to and increasing the likelihood of successful outcomes.

I am copying this letter to the Permanent Secretary to HM Treasury, the Treasury Officer of Accounts and the Comptroller and Auditor General.

Yours ever,

Alex Chisholm