



Ernst & Young Report – “Capitalising the Green Investment Bank”

Key Findings

- There are significant barriers standing in the way of low carbon investment – including high levels of risk in terms of new technologies that need to be deployed and the new business models that need to be developed. It is also clear that with the increase in the scale of low carbon investment we need to see, companies and banks cannot be expected to be the long-term holders of low carbon assets. The Green Investment Bank can help tackle these challenges by providing products and services aimed at sharing low carbon investment risk with the private sector and acting as a bridge to tap the vast pools of long-term capital held by the institutional investors.
- The UK needs to see a total of £450 billion in low carbon investment until 2025. This includes £225 billion in energy “supply side” investment and £225 billion in energy efficiency “demand side” investment.
- Traditional sources of capital (utility companies, other corporates, project finance and infrastructure funds) are only likely to provide approximately £50 to 80 billion to 2025 for energy investment.
- This creates an energy investment gap of between £370 and £400 billion between now and 2025. To meet this investment gap, average investment needs to increase from the £3 to 5 billion pa available from traditional sources to £30 billion pa – a six to tenfold increase.
- GIB should be structured to appeal to the widest and deepest sources of capital. The managed funds market in the UK is worth £3.4 trillion – the GIB could effectively tap this source of capital by raising GIB bonds in the capital markets and co-investing in low carbon assets with the private sector on behalf of the UK. A fund structure does not offer this opportunity to achieve the appropriate scale.
- There are particularly strong opportunities for the GIB to develop a number of risk-sharing and other financial products in the offshore wind generation, carbon capture and storage and energy efficiency sectors.
- At least £4 to 6 billion in tier 1 credit risk capitalization is required for the Green Investment Bank over the spending review period to 2015.
- In the absence of an institution such as the GIB, the UK low carbon sector will not be able to access institutional capital on the scale required. Without it significant competitive advantage in the low carbon economy may be lost.