House of Commons

Public Accounts Committee

Oral evidence: Creation of the UK Infrastructure Bank, HC 45

Monday 7 November 2022

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Mr Jonathan Djanogly; Mr Louie French; Peter Grant; Anne Marie Morris.

Max Tse, Executive Director, National Audit Office, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, and Lewis Holden, Head of Accountability and Governance, HM Treasury, were in attendance.

Questions 1 - 95

Witnesses

I: John Flint, Chief Executive, UK Infrastructure Bank; David Lunn, Chief Operating Officer, UK Infrastructure Bank; Philip Duffy, Director-General Growth and Policy, HM Treasury; James Bowler CB, Permanent Secretary, HM Treasury; Tim Jarvis, Director Companies and Economic Security, HM Treasury.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

The creation of the UK Infrastructure Bank (HC 71)

Examination of Witnesses

Witnesses: John Flint, David Lunn, Philip Duffy, James Bowler and Tim Jarvis.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 7 November 2022. Today, we are talking to officials from the Treasury and from the UK Infrastructure Bank, which was set up in June 2021 as a publicly owned company designed to encourage both private and public sector investment in infrastructure projects around the country. The total estimated amount for infrastructure investment need is about £650 billion, so the infrastructure bank is an important but small part of that programme.

We want to be asking questions about its purpose, how the set-up is going, because it was set up very quickly, what its outcomes will be and what success will look like for the bank. This comes off the back of work that we have done before on the Green Investment Bank, which was later sold off in 2017. That lasted about as long as the UK Infrastructure Bank is scheduled to last, so we want to ask why this might be different.

I would like to welcome our witnesses. We are delighted to welcome to his first outing in front of Parliament James Bowler, who is the Permanent Secretary at His Majesty's Treasury. Phil Duffy is the director-general for growth and productivity at the Treasury. John Flint is the chief executive officer at the UK Infrastructure Bank. Thank you for your letter of 1 November, Mr Flint. David Lunn is the interim chief operating officer at the UK Infrastructure Bank. Tim Jarvis is the director for companies and economic growth at the Treasury. Thank you for coming.

As I say, Mr Flint, thank you for your letter. We will go into some of the information in that. We appreciated the candour in it. We get a lot of people trying to tell us that everything is all rosy in the garden, so it is helpful to know that you recognise that it is not perfect yet. One of the things I want to ask first of all is to you, Mr Flint, as the chief executive officer. I mentioned at the beginning that we looked at the Green Investment Bank before that was set up, but then it was sold off. What is different about the UK Infrastructure Bank?

John Flint: I can start to answer that, but it will probably be the shareholder that will need to complete my answer. The mission and the purpose is broader. We have a mission around net zero and making sure that the infrastructure for net zero is built and financed, and then we have a second objective around regional and local economic growth.

My sense that I got through the recruitment process I went through was that the Treasury was very keen to ensure that the UK Infrastructure Bank is an enduring institution. That was the phrase that was used. Ultimately, the question probably needs to be answered by the shareholder.

James Bowler: It is three times the size of the Green Investment Bank. It has a slightly broader remit. It is probably worth saying that the UK Infrastructure Bank, to put it in its structure, forms part of what we are trying to set up, which are the long-term foundations for growth. We have a National Infrastructure Commission, a UK Infrastructure Bank, a British Business Bank and an IPA. These are the structures to make sure that we can deliver long-term growth—infrastructure growth in this circumstance. We need those structures to do that, so that might beg the question why we did what we did with the Green Investment Bank earlier that decade. I will happily answer that question too.

Q2 **Chair:** Sir Geoffrey will be coming to that in a moment. Mr Flint, you are quite candid in your letter that some of the timeframes have been difficult to meet, but you were set up at quite a pace. Mr Jarvis was the SRO for the bank, but you started working on it in April 2020. You were then advised, encouraged or instructed by Ministers to make sure that the bank was set up by about April 2021 and was already lending, and, by June 2021, you were going. That is very fast paced from first thought to being in place.

Mr Flint, would you like to reflect on what that has meant for you as an operational body, now that you have some permanence? You now have 162 staff, and it is 2022, but you are still, as you highlight in your letter, not where you need to be, so was part of that because it was set up so quickly?

John Flint: No, I do not think so. On reflection, the decision to set us up as we were has proved to be good for the bank. It takes years to build a bank and we are 18 months into that process, so we are by no means complete. We still have a lot of work ahead of us, but the benefit of starting as we did and building the bank on the go is that we are productive earlier than we would have been. We are 18 months in. We have made commitments of £1.4 billion. We have announced 10 transactions. The balance sheet is being mobilised. Capital is being mobilised.

Most importantly for me as the accounting officer, the skills and capabilities of the bank are building with each transaction. We will execute bespoke corporate finance and investment banking transactions into the market. Each one will be different. We have seen the limits of designing the bank in theory versus prosecuting the bank in practice, and it has been really rewarding, every time we write a transaction or commit capital, to see the capabilities of the organisation build.

My reflection 14 months into the role is that it has served the bank well. We are more productive now than we would have been if we had still been in design phase.

Q3 **Chair:** Mr Jarvis, what was it like for you in the hot seat there? You are starting off a process that was 14 months quicker than the Green Investment Bank was set up. Did it feel rushed for you?

Tim Jarvis: It was quite a pacy operation, as you said.

Q4 **Chair:** They are so good, aren't they, at describing it? It was a pacy operation—okay, so what did it feel like? Did it make you sweat?

Tim Jarvis: It was, as you say, shorter than the period to set up the Green Investment Bank and the British Business Bank, but we had done quite a lot of work in advance. There had been the report of the National Infrastructure Commission in 2016 and we had had the infrastructure finance review in 2018, both of which had looked at the idea of a bank, so we had done quite a lot of the thinking.

The implementation meant that we needed to go in quite a phased approach. When we set up the bank in June 2021, we had an interim CEO, so that we retained within Treasury the sign-off of deals to ensure that we were protecting value for money. There was, as you say, a six-month period that was quite intense. It was also, of course, a period when we were coming out of lockdown and people were still working from home, but we were able to set up. By the time the bank opened in June, we had a location. We had agreed the balance sheet and the size of the bank. We had appointed an interim CEO and appointed a chair to the board, so we were ready to go.

As John has said, we felt that giving the bank the opportunity to engage with the market and to build up its pipeline of deals while we retained those protections over the signing off of deals within Treasury was a way to build up the bank while retaining value for money for taxpayers.

Q5 **Chair:** Mr Lunn, you are chief operating officer, but interim still. We only have a summary of your CV, but, from what it says here, you have not had a role quite like this before in your career. Is that right or is there a bit missing?

David Lunn: That is right. I am a Treasury civil servant by background. That brings advantage for the bank in that I know how Government work and how Government processes work. We need many approvals and I know the proper way of going about those. What I do not have is a long banking CV. That said, I was on the board of the EIB.

Chair: Not to decry being on the board, but it is different.

David Lunn: Yes, it is a very different role. I am not trying to overplay my role. I am not a banker and, in due course, the bank will have a chief operating officer who is and has been a banker. We have advertised for that, and that process is under way now.

Q6 **Chair:** Mr Flint has had a long career in the banking sector. Are there bits you feel that you are not so well qualified to deal with?

David Lunn: I am lucky that I have lots of career bankers around me, including John and others within the organisation, which means that there are definitely skills there that I can draw on. Like I say, the bank definitely needs someone with a banking background doing my role in the long term, and that is what we are advertising for.

I am not the person to design bank systems and IT systems, and we have people around me who can do that, but, long term, you need someone with that background in my role. I have not applied and will not apply for the permanent role.

Q7 **Chair:** Mr Lunn has been incredibly honest and straightforward, so you can speak freely, Mr Flint, without undermining his skills as a civil servant. What other things can the bank not do because you do not have the right skills—not just in Mr Lunn's but in other roles—in place? What are the big roles that are slowing down progress?

John Flint: At this stage, the progress is mostly hostage to the number of bankers we have interfacing with the market. We have just started the recruitment process for the bankers. I started by recruiting my exco. They landed in September, so they are now with the bank. They are now going through the process of recruiting their own teams. We have a small banking team of 15 to 18 people. We need to get that up to probably circa 70 people, so that we can cover the market and the investor base as we wish. That is the principal constraint.

Just coming back to David's role, the operational intensity of the bank is quite low, because, a year in, it has 10 transactions. Our most operationally intensive activity is payroll. It is the HR component. We have to design and implement banking systems that will be robust, but they are not particularly urgent from a volume perspective. One of my key roles as the accounting officer is to make sure that we are going as quickly as we reasonably can, while being able to manage the risks that we are taking.

David is very modest, but his lack of experience on the operational side has not held us back. To the contrary, he needs to take a lot of credit for the fact that we have navigated the first 18 months as well as we have.

Q8 **Chair:** Mr Lunn rightly highlighted that sometimes the challenge when the private sector meets Whitehall is not understanding Whitehall. He put it very delicately. What have you found surprising, challenging, difficult or good about dealing with Whitehall—any or all of those?

John Flint: Probably all three categories. You are absolutely right. I am 14 months into public sector. My entire career was private sector. The calibre of the people I am interfacing with is fabulous and very high. The value system that I am encountering is extremely good. When I reflect back on the moments in my first year where it felt a bit painful, there were good reasons for it being a bit painful. For example, we had to work hard with HMT to get the pay and reward structures for the bank set up. That was not a straightforward process.

Q9 **Chair:** You do not have the same constraints about how much we pay the Prime Minister, do you?

John Flint: We are subject to those constraints, so we need approval for any role above the Prime Minister's salary. That is just one of the constraints. To me as a newcomer, that felt a little difficult, but, on reflection, it should have been, because that is the nature of the task at hand. Generally, the experience has been a positive one.

Chair: We are going to come to some of the staffing issues, so I will pause on that for now.

Q10 **Sir Geoffrey Clifton-Brown:** Good afternoon, Mr Bowler, and welcome back to the PAC. Can I extract part of one of your answers to the Chair earlier on? You outlined a variety of different ways in which a Government can fund what is, basically, investment in clean energy, transport, digital, water and waste. You did not add to that list that Departments can do that directly themselves, so what was the necessity to go to all the expense of setting up this bank? Why could you not just have done it as it was normally done, principally by funding it by Departments?

James Bowler: The structures that I was giving you were long-term growth generally, but the two reasons were expertise and independence. I do not have—and I would not say that other Departments have—experts in infrastructure banking, experts in new technologies and experts in that corporate finance side of the tree. We would potentially be struggling if we tried to do all the deals that the UKIB is doing in and of ourselves. I would have to, essentially, recruit something akin to UKIB into the Treasury.

If I did that, it would not be independent of the Treasury. Looking at the Cabinet Office arm's length body guidance, the reasons for setting up something are the expertise but also that independence side of things. We definitely benefit from setting up an arm's length body that has a clear set of objectives, which can go and deliver those objectives without constant interference from its shareholder.

You make a point and, as we considered this and as we consider any arm's length body, we had to think about whether we should do this ourselves, whether it should be part of another institution or part of the British Business Bank, or whether it should be its own arm's length body. We took the decision that this is its own arm's length body for that expertise and independence side of things.

Why not part of the British Business Bank? That is because it is doing very different things. They are both doing finance, but the British Business Bank is doing small and medium-sized finance to individual firms, and this is doing much bigger infrastructure finance in particular technologies. Those are different, so we decided against that. You will know that the British Business Bank has a lot on its plate already.

We took that decision. Having looked at it—I was not here—I think it was the right decision. Government are sometimes criticised for being short term or for not putting in place the long-term frameworks for investment, and this is part of those long-term frameworks.

Q11 **Sir Geoffrey Clifton-Brown:** This is not a googly, necessarily, for you.

Any member of the panel can answer this question. How much has it cost to set the bank up so far, and how much will it have cost by the time you get into a fully empowered state in 2023?

John Flint: We would anticipate that the expense base for this year will be about £48 million. You will see bigger numbers on the ultimate size of the balance sheet, but, of course, it is required of us that we generate a positive financial return, so we will not be a drain, ultimately, on Government funds. We will be creating capital for the public purse, but we will spend £45 million to £48 million this year to run the bank.

Q12 **Sir Geoffrey Clifton-Brown:** By 2023, when you are into a steady state, hopefully—

John Flint: It will be between £70 million and £80 million—something like that.

Sir Geoffrey Clifton-Brown: That is not huge in the scheme of what you are lending.

James Bowler: In that steady state, we are hoping that the return covers the cost.

Sir Geoffrey Clifton-Brown: Yes, I want to come back to that in a moment.

Chair: "Hoping" sounds a bit vague. Sir Geoffrey is on the case.

James Bowler: Planning.

Q13 **Sir Geoffrey Clifton-Brown:** I want to come back to that. This is perhaps for you, Mr Bowler, but I do not mind if you give it to one of your Treasury officials. The PAC knows the whole experience of the Green Investment Bank very well indeed, including the fact that it was not allowed to invest in green investments. You said this in your opening remarks and, indeed, our supplementary briefing tells us, in the NAO Report—figure 5, page 22—that this intends to be a long-lasting institution. What is to stop the Treasury doing exactly the same as you did with the green bank—get it up and running, make sure it is hugely profitable, with a great pipeline of investments, and then say, "Hang on a minute. There is a good profit here for the Treasury. Let us sell it off to the private sector"?

James Bowler: That is a perfectly reasonable question. I will answer it in two parts, if I may. Why did the Treasury at the time sell the Green Investment Bank? That is because it was doing very well and there was a case that it could carry on in the private sector, but also it was the decision of Ministers at the time that the European Investment Bank could do much more for the United Kingdom. The Treasury put a lot of effort into making sure that, as a shareholder of the European Investment Bank, we got much larger returns from it, and that came to pass. We got up to £5 billion a year coming from the European Investment Bank, and I can see why Ministers at the time took that decision. We do not have access to the European Investment Bank, which is a key factor as to why we need this bank.

Why will we not do the same again? First, the European Investment Bank is not there. Secondly, we have put it in legislation to show our commitment to it. Thirdly, this is part of the architecture for what we need to deliver on long-term infrastructure. We have all sorts of things, from net zero in 2050 to a whole host of things that did not exist at the time of the Green Investment Bank and that we are now chasing.

Sir Geoffrey Clifton-Brown: With great respect, Mr Bowler, I am used to Permanent Secretaries not quite giving me an answer to the question that I asked.

James Bowler: I thought that that was rather full.

Q14 **Sir Geoffrey Clifton-Brown:** It was a great answer but not the answer to the question that I asked. What is to stop the Treasury selling it off in five or 10 years' time, once it is up and running, with a long pipeline of investments, and is thoroughly profitable?

James Bowler: We still need to deliver on all sorts of things, like our net-zero target, and we will still need the UKIB to do it. We put it in statutory legislation, which will make it more difficult sell.

Sir Geoffrey Clifton-Brown: It is in statutory legislation.

Chair: It is just "more difficult".

James Bowler: Nothing should be impossible. Parliament at the time would need to—

Q15 **Sir Geoffrey Clifton-Brown:** One Parliament cannot bind its successor. You have delegated the very important shareholder task to UK Government Investments. On the Public Accounts Committee, we see a lot. I have a slightly jaundiced view of UKGI, particularly in relation to its performance on nuclear. Performance in this sort of thing may be better. How are you going to make sure that UKGI is representing the Treasury's interests to the maximum of its ability?

Tim Jarvis: I am also the sponsor for UKGI, so perhaps I should pick that up. The model we have adopted within Government, the shareholder representation model, is to generally use UKGI to represent individual Departments on the boards of assets. That is the model we have adopted here.

Nevertheless, we have a strong and close relationship with UKGI. We meet them regularly. We have the chief executive of UKGI sitting on the board of the UK Infrastructure Bank, which is an indication of the importance of the institution, particularly in these early years, to make sure that we have somebody really experienced there. He is backed by a shareholder team. We meet weekly with UKGI. We talk to them ahead of and post board meetings to make sure that our interests are being represented on the board. That model is probably a better one, with someone with that corporate finance and corporate governance experience at that level, rather than, for example, a Treasury official just going along to the board.

Q16 **Sir Geoffrey Clifton-Brown:** Mr Jarvis, we will, presumably, get the annual report and accounts from Mr Flint. We will get, no doubt, the audit from the National Audit Office. What will be UKGI's reporting mechanism to Parliament, so that we in Parliament and in the Public Accounts Committee can really get under the skin of what is happening in the bank and what might be going wrong?

Tim Jarvis: The role of UKGI on the board is to represent Treasury, so it reports back into us. We take into account what we are told and apply that, and that is reported back to Parliament.

Q17 **Sir Geoffrey Clifton-Brown:** Will that be private to the Treasury or will that be in the public domain, so that Parliament can see some of that?

Tim Jarvis: There is no mechanism for the advice that UKGI might give us in fulfilling its role for us as a shareholder representative to be made public. The process is one whereby we, as shareholder, are responsible for the bank and report to Parliament on the performance of the bank and our role in scrutinising it. That is the process through which Parliament can scrutinise the work.

Q18 **Sir Geoffrey Clifton-Brown:** Mr Bowler, I do not know what can be done here, but we have had several incidents in the Public Accounts Committee where things have gone wrong, which, if the shareholder had reported more quickly, we in Parliament might have seen. Is there any way that at least a summary of this shareholder report can be put in the public domain? An annual report and accounts, and a little bit more so with the National Audit Office audit, will tell you so much, but it will not give you an early warning when things are going wrong.

Philip Duffy: I can answer that, because I am also a board member of UKGI. You are quite right; some very serious issues have arisen in the UKGI portfolio, which this Committee has looked at. Magnox is a good example in the NDA space. Maybe that is what you had in mind.

When you look at the fine warp and weft of what went wrong with those issues, quite often, exactly as you surmise, there were risks flagged and they were known to the shareholder, but they were not escalated, so they were not clear to the Department that owned that particular asset. That quality of agreement between the Secretary of State, the accounting officer for that Department and UKGI was not clear enough. That has been a major piece of work for the UKGI board, which I attend. It has been focusing on this quite heavily to clarify those relationships.

UKGI is an agent of its accounting officers. It does not have its own remit here. Where it attends the shareholder function for UKIB, it has to discharge the instructions we give it and we get the feedback about what has been said at that board.

One thematic issue, which you quite correctly raise, is making sure that we get a sense from a particular board that there is a problem—you have seen some of them—and escalate that appropriately to the Department that has responsibility for that. UKGI has no business taking policy decisions on behalf of Departments, but it does have that role in escalating those issues. Whether us saying publicly exactly what was said about a particular issue is the right thing to do, I do not know.

What is important is making sure that Departments that are sponsoring these agencies know about what is going on in these boards. UKGI—and I am sure that its CEO will be very happy to come to talk to you about this—is very focused on improving that issue and its own risk management.

In fact, for the Treasury as a sponsor of UKGI, one of the things that it is working on is making sure that the risk management across UKGI and the flagging of those hotspots in what gets said in these boards around Whitehall is appropriate, and that things are being escalated appropriately. That is a very serious bit of work for us across the UKGI portfolio.

Q19 **Sir Geoffrey Clifton-Brown:** That is a really helpful answer. Mr Bowler, UKGI will report to you. The Treasury might get an inkling that things are going wrong and you might take the appropriate action, but you might decide not to put that in the public domain, so Parliament might not comprehend that information until many months, or maybe even years, later. How can we on this Committee see what you see in relation to the bank, its successes and its failures?

James Bowler: On the UKGI point, there is an improvement process going on. That will conclude and we could happily tell you the outcome. As Phil rightly says, UKGI is an agent and nothing more. If we are aware of problems in a particular programme, project or institution, the requirements to tell Parliament can and should be the same ones that we have at the moment.

As we have seen on things like contingent liabilities, the key is that we are, indeed, flagging those things to Parliament—telling you in advance and up to date—and that the rules we have in "Managing Public Money" are being adhered to. As I understand it, there are some areas where the rules are there, but the notifications to Parliament are a bit patchier than we would like. I would be keen to deal with it by making sure that, if there is a requirement to notify Parliament of a problem that is emerging, that is done. The fact that UKGI exists as this agent should not be the reason not to do that.

Q20 **Chair:** We will see the audited accounts. They are reported to the House, but sometimes arm's length bodies or Departments will provide a commentary with that report. The ID cards project was one, and HS2 another. This Committee worked with the Department for Transport to see if we could get a really useful measure. I was wondering if, between you, Mr Bowler and Mr Flint, you could agree something that gives a more narrative example, given that this is supposed to be delivering on levelling up—sorry, "regional and economic growth" is the phrase—and net zero. You have your mission statements in figure 5. Will the annual report cover that or is it something we could agree that you report on to Parliament at the right interval?

John Flint: It will be covered in the annual report. The annual report for the first year is likely to be published later this month. It is just awaiting sign-off at the moment. It will be slightly out of date at that point.

James Bowler: Is the bank achieving successes? We are agreeing a whole set of indicators with you that you are going to report on, and that reporting will be public.

Chair: Good, we will come back to some of that information and reporting later.

Q21 **Sir Geoffrey Clifton-Brown:** I have a couple of quick questions for you, Mr Flint, because I am taking up an awful lot of time. You are set up to become self-financing in five years' time. Is that a realistic prospect?

John Flint: If "self-financing" means profitable—i.e. we have income that is greater than the cost of running the bank—yes, I think so. The profit and loss account for the bank is likely to be noisy in the first few years and, indeed, when the first-year results are published, they will show an anomalously positive result, because of a gain on a particular investment that the bank proceeded with. It is likely to be noisy, but, once we get to steady state, yes, five years is reasonable for that.

As for the self-financing piece of the balance sheet—so whether enough of the balance sheet will be rolling off to be able to fund it—that is a different question. That is less likely, for the simple reason that infrastructure financing is typically much longer dated than five years. So will it be self-financing in the context of profit and loss? Yes, that is reasonable. Will it be self-financing in the context of the balance sheet? That is probably more challenging, in five years.

Sir Geoffrey Clifton-Brown: Given that we are expecting an infrastructure investment of £650 million, Mr Bowler—

James Bowler: Billion.

Sir Geoffrey Clifton-Brown: Sorry—billion.

James Bowler: We could almost do it for £650 million.

Chair: We are just testing you.

Q22 **Sir Geoffrey Clifton-Brown:** You are listening carefully to what I am saying. Given Mr Flint's answer just now, once that £22 billion initial investment is set up and, hopefully, is successful and achieving what it is supposed to achieve, which are some very important goals around levelling up, green investment, net zero and so on, are you envisaging that the Treasury would have to put in another tranche of money after five years?

James Bowler: We have a review in 2024 that is going to look at just that, which I think is the right thing to do. How did we get to £22 billion—£12 billion debt and loans, and £10 billion grants? We took soundings from private and public sectors about gap and capability. We did a set of international comparisons. We looked at what they did in Australia, Europe and, in particular, Canada. We have set the £22 billion at a similar level to some of those things, particularly Canada.

Our hope is that the bank is very successful. Remember, its interventions need to be additional. We will talk a lot to you about the triple bottom line, but it is not there just to get as much money out the door as it can. It is there to do the things that are truly additional. The bank is already turning down quite a lot of options, because they are not additional, but, if it is additionally investing and hitting its triple bottom line, we can go bigger.

Q23 **Sir Geoffrey Clifton-Brown:** Mr Flint, are you going to meet your targets for crowding in that private investment? Is £2.5 billion on the first £1 billion of investments a realistic target?

John Flint: I think so. The early evidence suggests that that is very achievable. The market has evolved to measure private finance mobilised in a particular way. We have made commitments of £1.4 billion. Against that, we are recognising £4.5 billion of private finance mobilised, so we should be able to more than achieve that particular target.

Q24 **Sir Geoffrey Clifton-Brown:** Given your first few investments, forgive me, but it seems that the type of investment you are making is a fairly ordinary, pedestrian type of investment. Will your bank be able to, within its remit, lever in new technologies that are coming along, such as AI or crypto? Does that come within the heading of communications or where does it fit in? We know that, increasingly, a solution to a lot of problems is space and transmitting of data. How far is your bank going to be able to go in these new technologies?

John Flint: I would first pick up on your observation that the first set of transactions is reasonably vanilla. Forgive me; that was not the word you used, but it was a similar one.

Sir Geoffrey Clifton-Brown: I used “pedestrian”.

John Flint: That is right, and that was by design. Again, in my role as accounting officer, I want to build the bank as quickly as possible. We need to establish capabilities, so we start at the more straightforward end of the transaction spectrum and we build capabilities. We have been doing senior debt transactions and we are comfortable with that. We are not yet comfortable doing direct equity. We have a bit more work to do before we can do that. Your observation is absolutely right.

Everything that we do is about infrastructure, so we can get involved in new technologies that are infrastructure-related and can support infrastructure assets or networks. I would not imagine that crypto will come anywhere near this bank for a long period of time, and I have my own thoughts on crypto more broadly outside of infrastructure. Artificial intelligence will almost certainly play a role in the transition to net zero. The efficiency required across our energy systems will almost certainly come to rely on artificial intelligence to some extent, but that is off in the future.

We have an open mind. This organisation we are building is designed to go out looking for problems to solve and, if we can use a new technology in the support of infrastructure to get us to net zero or regional economic growth, we will; crypto, no, but AI will be on the menu at some point.

James Bowler: It might be AI and it might even be crypto, but it is also particularly the technologies that will help deliver net zero, which, of course, are going through their own maturities. I am no expert, but, if you look at the investment in offshore wind, that is something that the Green Investment Bank had quite a bit to do in.

That is a much more mature technology now than it was even 10 years ago, and the additionality of investment in that might be much less, but there is a whole set of new ways of combating climate change or delivering net zero. The bank needs to take a judgment going forward as to the areas in which the private sector might not be able to invest without the encouragement of the bank. It is those technologies to deliver net zero as much as the wider technologies themselves.

Q25 **Anne Marie Morris:** Mr Bowler, we started out with an assertion by your good self that putting in place this new bank was important, because the projects that need to be undertaken could not be done without establishing that bank. We are talking here, however, about putting at risk £22 billion of taxpayers' money—half the figure that the Chancellor is looking for on 17 November. How are you going to measure the cost-benefit of setting up this bank, and the return? I understand that you have mechanisms for individual projects, and I understand the profit and loss account, but, overall—big picture—what was the benefit and how are you going to measure it, so that we know that this was worth doing?

James Bowler: We get back to my day job. There are different currencies here, I fear. These are guarantees, but they are also investments and loans, so there is an asset and a liability rather than straight cash. I would probably go straight to this triple bottom line idea, which means that, in any individual investment and as an aggregate the bank is asked to do three things: deliver its policy objectives, which includes additionality; crowd in private finance; and make a financial return of 2% to 4%.

It needs to do that on every single one of its things. Some might go better than others. That is where we are setting up the governance and the structures to make sure that it is making a return to protect taxpayers' money, so that it is, in all those things, doing what it said it does, but also making a financial return that we hope, by five years, is covering its cost, so that we do not have £22 billion at risk that can disappear in one change in the markets, or what have you.

Q26 **Anne Marie Morris:** On the bottom line, the last one—finance—is easy. How are you going to measure the first two? How are you then going to convert them into some sort of conceptual monetary value? At the end of the day, that is what counts.

James Bowler: I might ask for some help on this one.

Tim Jarvis: Perhaps I will come in on that.

John Flint: I can help too.

Tim Jarvis: Yes, perhaps John can help as well. As James set out, we have set this return on equity target for the bank of 2.5% to 4%. That range is intended to reflect the fact that the bank is not looking to make the same return as a commercial bank; otherwise it would not be adding any additionality, but it is still, over the whole of its portfolio, making a return on its investments and making money. We will be monitoring that target very carefully. We are reviewing it in 2024 and we will be looking for the bank to have achieved that about five years into its operation. We have also set a target for it to attract additional private finance in. This is the £18 billion figure.

Those are the two broad financial metrics by which we will be able to measure success. That will happen on a deal-by-deal basis and the bank will assess each deal against those criteria, but also as a portfolio over time, as we look at the overall investment.

Q27 **Anne Marie Morris:** In a way, Mr Jarvis, you make my point for me. They are financial. What I am hoping Mr Flint is going to give me is a broader picture for all three parts of this triple bottom line, which I am not hearing.

Tim Jarvis: I will pick up on that, and John can add to it. There are two sets of metrics, as you very rightly said. There are the financial metrics. If the bank goes out there and just makes money, it is not doing what we want it to do. This is a policy bank and we need it to meet the two objectives that we have set for it around net zero, and local and regional economic growth.

We are working very closely with the bank to set some KPIs around that, so that we can measure its progress. The bank has started its work on that in its strategic plan. Perhaps John can say a bit more about developing thinking there, but we are looking at targets around, for example, net carbon emissions, jobs and productivity. Those are the sorts of things that will be assessed on a project-by-project basis, as well as on a portfolio basis. John, do you want to say a bit more about your thinking on that?

John Flint: What will you see us measure to evidence progress or success? Profit and loss, you have already seen. That is a positive return for shareholders. Every time we do a transaction, you will see a public narrative around our additionality, explaining why we were in. We have announced 10 transactions, but we have turned down many more. They were good projects, but we did not feel that we were additional.

We are also publishing impact metrics—for example, direct carbon emissions abated—from the projects that we do. We are currently running just under 2 million tonnes of CO2 that we hope to abate through the commitments that we have made. Alongside that is private finance mobilised, which is already $4.5 billion, and the number of jobs created or supported of 3,900.

We are already reporting those. We do not yet have targets for the carbon or for the jobs. We are still working through how it would be sensible to set targets and what those targets might be. We are developing other potential impact metrics as well. There will be an impact metric and a broader additionality story for each transaction we do. In the annual report, you will see that summarised in aggregate for the bank.

Q28 **Anne Marie Morris:** There is one gap, which is productivity. I hear the net zero and I hear the jobs, but I do not hear productivity, which is the most difficult one. To separate out your contribution to productivity is going to be challenging, but how might you approach that?

John Flint: We have wrestled with that question. A few months ago, we had a GVA measure in our impact framework, and we stepped back from that a little to see whether we could do something a bit more meaningful on average salaries in the places where the money is being invested. We have an impact team that is working through exactly that question at the moment.

Anne Marie Morris: I look forward to the outcome. Thank you.

Q29 **Chair:** I will come back to some of that in a moment. For clarification, Mr Bowler, you talked about a review in 2024, but there are various things. Five years on from its approval, there was a set date by which it was hoped the bank would reach self-funding. That was 2026. In the Act, there is a seven-year review built in. Can you just talk us through which reviews are happening when?

James Bowler: Let me have a go. I might confuse everyone, and then Tim or Phil can fill in.

Chair: It is always good for someone else to tell the Permanent Secretary what needs filling in, but give it a go.

James Bowler: I am getting quite a lot of that these days. When the Bill completes, we will do a review to make sure that the bank is doing what the Bill, at Royal Assent, says it will do. That will be soon. I thought that there would be a strategic review of the bank in 2024.

Chair: Mr Jarvis is nodding, so you are right.

James Bowler: That is good news. That is a rarity these days.

Chair: That gives us great confidence for 17 November.

James Bowler: No, not for Mr Jarvis—just generally. That is a key thing to see that the bank is up and running, and has got to steady state. Is it working? Is it delivering what it says? Is £22 billion the right number, and so on? In the Bill, we also commit to a statutory review every seven years, so that would be seven years from now, presumably.

Chair: So that is from the Act.

Tim Jarvis: Yes, assuming that it receives Royal Assent.

Chair: That would be 2028.

Tim Jarvis: 2029.

Chair: From enactment, sorry.

James Bowler: I do not recognise the 2026 one.

Q30 **Chair:** Five years after approval, it has to be self-funding, has it not?

James Bowler: That is the aim.

Chair: That is not within the other review dates, so it is not necessarily reviewed. Perhaps Mr Jarvis should come in.

Tim Jarvis: That is part of the ongoing review. I do not have a lot to add to what James set out. That is exactly right. I would confirm that we are looking to do the review of the framework document as soon as the Bill is passed, so by the end of the year. We would publish any changes to the framework document as a result of that. The review in 2024 is quite the crucial one. That is in the middle of the bank's build-up. We have set this £22 billion balance sheet, which will build up over a five-year period, but having a look after three years at what is happening, how the bank is doing and what progress it is making towards its return on equity target is quite an important review point for the bank.

Chair: I will come back to the framework document, if colleagues have not picked it up.

Q31 **Mr Djanogly:** Good afternoon. My first question has been touched on to some degree, but it is on volume. Mr Flint, we have been told that, as of May of this year, after a year of operation, the bank had made five investments of a value of £311 million, and we heard last week that that is now 10 deals of about £1.1 billion out of a capacity of £22 billion. Of those, only three involved equity, but apparently it is not direct equity. You are giving money to funds that do the work for you, in effect. Why so few deals?

John Flint: It is simply a function of the number of people in the front office of the bank. The number of people who are qualified to go and engage with the market and to structure transactions is very small, because we are very early in the recruitment phases of the bank.

Q32 **Mr Djanogly:** Funding from the EIB dried up after referendum. Apparently, it averaged approximately £5 billion of financing to UK projects every year before that, so you are way behind, in effect. Could it be that you have not had the parameters or the vision that you needed to take things forward? Perhaps you are building on that. Could it be that, in the early days particularly, you were conflicting with the green bank in terms of not knowing who was doing what? Could it be that there was confusion setting in from potential investees who did not know who to go to for what?

Chair: It was such early days. We did not overlap with the Green Investment Bank, just to be absolutely clear.

John Flint: The three factors that you outlined are not relevant to the pace of the roll-out. The pace of the build of the balance sheet is entirely a function of the skills and resources in the bank and the capacity to execute deals. To give you a little more colour, we have processed 550 requests for finance to date. That has led to the 10 transactions that we have now announced.

Chair: 550 down to 10?

John Flint: Yes, 550. There is quite a long tail of things in there that are not really relevant for the bank, but, once we work through all of that, you go from 550 at the top of the funnel down to 10 that we have done, which is just under a transaction a month. That deal volume will pick up as the skills and resources of the bank pick up. Could we have put more money out more quickly? Not in a safe way, no, and not in a way that I would be comfortable with as the accounting officer. As I said, we have to go as quickly as we can while being comfortable that we can manage the risks that we are taking.

Q33 **Mr Djanogly:** It does look as though there is no shortage of pipeline from the information you have been giving. You have a lot of people out there now.

John Flint: That has been a pleasant surprise, and perhaps it should not have been. Everybody wants us in their deals. If their transactions are relevant to our mandate, people definitely want the UK Infrastructure Bank with them or alongside them, because we are seen as HMT money or Government money.

Mr Djanogly: Or cheap money.

John Flint: We can be. That can be part of our offering, but not necessarily.

Q34 **Mr Djanogly:** Sir Geoffrey touched on this earlier, but, with expected returns of 2% to 5%, it sounds a bit more like investing in a utility company than a technology-based investment. I know that this is not hi-tech, and that private equity might want three times its money, but there is a big disparity here in terms of possibly a lack of ambition.

John Flint: No. There is a better or different way to interpret that return expectation. If we just take a step back, we know that the financing requirement for net zero is very significant. We have to rebuild the industrial economy of the UK from high carbon to low carbon. It is also reasonable to assume that the private markets will not get there on their own, so Government policy, Government intervention and some Government money is going to be required. We can be a meaningful part of that as an intermediary.

Q35 **Mr Djanogly:** If you had staffed up in the way that you mentioned before, you are saying that you could have got more money out by now.

John Flint: Let me come back to the return piece, because it is really important. The way to think about the fact that our return expectations are structurally lower than the market for infrastructure is that we have a greater appetite for risk, because we are going into the market to solve problems that the private markets on their own cannot solve.

We will lose some money on occasion. We will go into things, and we will back technologies and projects, where the expected return does not happen, and we will lose money. Rather than looking at the return expectation as a lack of ambition on either the shareholder's part or ours, the signal that the market is taking is that we have a greater or different risk appetite.

Q36 **Mr Djanogly:** The problem that you have is a lack of staff, you are saying.

John Flint: It just takes a while to staff. I will reduce this to a point where it might sound a bit absurd, but we are building a Government-sponsored niche investment bank in Yorkshire. That will take a little time to do. Yes, it is taking some time to recruit. We are making good, steady progress, but it will take some time until we get to the point where we are complete.

James Bowler: I will just come in on two points of clarification. First, the EIB does much more than UKIB, so there is no £5 billion target that UKIB has to fill that the EIB restricted. Secondly, as is in the heart of the NAO Report, we set this bank up as quickly as sensibly possible. There were certain facts that came out in the report about the business cases and all the rest of it that we had to take on at relative speed. The quid pro quo of making sure that we were doing that and delivering value for money was a phased approach. That phased approach deliberately sees the bank starting with—you said "vanilla"; you said "pedestrian"—building itself up.

Chair: It is a cautious bank.

James Bowler: As people come on to permanent staff and as the bank builds up, it starts with those less controversial things, less equity driven, and it will build up. That is a deliberate design policy as we get up and going.

Q37 **Mr Djanogly:** The bank is going to build up into providing equity, but that is at the same time as private equity stopping investing because of interest rates going up, and there are no deals out there anymore because they cannot do the debt. I am not sure whether that means that you have missed the boat or your time has come, because private equity will not be able to do it.

John Flint: It is mostly the latter. There is no question that the market is going to be more difficult than it would have been, but the case for the bank and the need for us to plug market failures and gaps has grown, because there are going to be more market failures and gaps, I suspect.

Q38 **Mr Djanogly:** There was a Bill going through Parliament last week, and I was trying to get my head around what has changed and what it is about. It seemed to me that the main thing is that it is going to, in effect, allow you to repurpose the bank towards lending to local authorities. Is this, again, going away from your original principles, and are you going to become an adjunct to local Government?

John Flint: It should not mean that. As part of our mandate, we have been asked to keep a portion of our financing capacity for local authorities. We have a local authority lending facility of £4 billion, which is, for infrastructure projects, cheaper than local authorities could get from the PWLB. The relevance to the Bill is that, at the moment, we do not have the authorities in our current form to make that loan directly; we are having to organise it through the PWLB. But it was always by design that a portion of what we do and of the financing we provide will be for local authorities.

Tim Jarvis: The first loan was to a local authority.

John Flint: Indeed it was.

Q39 **Chair:** Do you have any local authorities in the pipeline at the moment that are champing at the bit to work with you for advice?

John Flint: There are two aspects to our local authority piece. There is the lending piece, which is already up and running and is reasonably straightforward, and then there is the advisory piece, which I would confess is not straightforward, but we do have three pilots that we now have up and running with some of the larger local authorities around zero-emission buses and heat networks.

Q40 **Chair:** Were they Manchester and Yorkshire?

John Flint: Yes, and Bristol.

Q41 **Chair:** So it is two executive Mayors, and Bristol also has an executive Mayor, so it is the combined authorities that are attracting your attention at this point. Is that because it is easier to work with them, since they are bigger infrastructure projects? Is there any particular rationale?

John Flint: The way that we decided to get into the advisory piece is to try to understand and define problems that we think will be most common across the local authority landscape. Most local authorities are going to have to figure out how to finance heat networks, zero-emission buses and mass transit more generally, social housing retrofit, and so on. We would like to find local authorities that are working on these problems and to work with them to develop a proposition that we can then replicate across other local authorities.

That approach has taken us to the most capable local authorities, candidly, which is why we are dealing with the ones that we are dealing with. They have the most developed pipeline, they have the ambition, and they have the projects up and running. We can support and we are giving them resource. That resource will absorb everything. Then we will try to get some, as we call them, replicable models or solutions that we can cascade to other local authorities.

Q42 **Mr French:** Before I begin, just for full transparency, I was previously a specialist infrastructure investor in the City and invested in many projects alongside the Green Investment Bank. The focus of my questions is going to be on additionality and how you attract that private capital to deliver the infrastructure goals of the Government.

My recollection is that the Green Investment Bank helped incubate and build the renewables market in the UK, and was very successful in doing that. How is the bank doing the same in terms of target investments and that additionality? For many of the examples that you just listed, I could point to a number of funds that are achieving those goals already, without the need for the bank. How are you targeting additionality and attracting private capital?

Chair: Thank you for commenting on that in your letter. It was very candid of you to highlight this. Perhaps you could put it on the record more clearly.

John Flint: How are we approaching additionality? We put out a short paper on the internet just to explain our approach. We put out a blog as well through our chief impact officer. At the end of the day, additionality is a judgment. There are many different ways that we can be additional as a bank.

We can accelerate the development of something by providing more capital than the market is willing to at the moment. We can be additional by fixing gaps, because there is not enough capital. The UK banking market is not that large. We can be additional by taking risk that the market is just not willing to take right now, so first-of-a-kind technology risk is something where I would expect us to be quite busy in due course.

We can also take policy risks that the market might not be comfortable with, so we can develop an understanding of Government policy in its current form and where it is heading, and then we can amplify policy interventions as they come. There is some regulation around heat networks that will be coming in the next 12 to 18 months. There is biodiversity net gain that is coming. There are auctions around hydrogen and CCUS that are coming.

We can look to be additional to all those market moments by working with the Government Departments, understanding the private market appetite and then figuring out what we think our intervention is. I cannot tell you today what all those different additionality arguments or interventions might be, because we have not got there yet, but it is part of our design that we need to be additional every time we invest, so we will be.

Q43 **Mr French:** Taking what you have just described, which would be welcomed by most—I do generally support the set-up of the bank, just to be clear where I am coming from here—and looking at the portfolio and the early stage investments you have made already, I will come on to other experiences that might be helpful to you in a moment, but what is the role in the portfolio of the pooled funds that have been discussed? Is this for liquidity or returns, or is this just because you do not have the skillset to invest at the moment in parts of the market?

John Flint: It is very simple. As things stand today, we really do not have the skillset to deploy equity in a direct sense. We do not have enough resource in the bank. We are getting there.

We then had a decision to make. Do we say to the market, "We are not going to deploy any equity" and just wait, or do we deploy it via qualified third-party managers? This was a subject we discussed extensively with the board and internally. Our clear conclusion was that the urgency of the mission means that we should not be waiting here, if we have the capacity. We benefit from building this business in the UK. We have this ecosystem of managers. We should take advantage of that and get on and deploy.

In the first 12 to 18 months of the bank, that is a larger proportion of our activity than it will be in the future. That will moderate over time as we develop our own skills. We will not be outsourcing it any more; we will be doing it ourselves. The simple decision for us was, "Do we wait?" We had the capacity to deploy and we decided not to.

The other thing to note is that this is not a new technique. This is a technique that has been deployed successfully in Government before. Indeed, the bank was seeded with a digital infrastructure fund and a charging infrastructure fund, which were developed five or six years ago. They have been successful. As a result of that intervention and that equity commitment, there are businesses in the UK that are now operating, employing people, delivering infrastructure consistent with our mandate, and, happily for the bank in its first year, delivering significant returns.

As I mentioned before, when we do publish the annual report it is likely that it will show quite a healthy profit in the first year.

Chair: That is because of the work of those funds.

John Flint: You would not expect that from a bank in its first year. They are because this technique was applied. The simple answer is that, because of the urgency of the mission, we decided we did not want to wait.

Q44 **Mr French:** To follow on from that, I am all for incubating. As expected, the return profile will shift as some of these infrastructure investments become lower risk. There is considerable dry powder on the sidelines. I note the comments that the market might have moved slightly since I left the City.

Chair: It is cause and effect.

Mr French: It has been quite a strange year not just for my career but for the City as well. There has been considerable dry powder looking to invest in infrastructure assets globally, not just in the UK, since the ending of PFI and others. I am looking at some of the names, and I am not going to name them because that would not be appropriate. Is there a risk that the bank could be seen by the market as rewarding failure?

One of the names I see in this portfolio was a late entry to quite a developed part of the market in the renewables sector and therefore failed to attract capital because it was later than rivals in that space. Is there a risk that you could be seen as rewarding failure to attract capital from other investors?

John Flint: There is always a risk of that. There is always a risk that we select the wrong transaction or the wrong partner. We put the processes in place to minimise that. I would not have any concerns about anything in the portfolio yet.

I would also respond briefly to your comment that there is considerable dry powder waiting for this transition. In theory, yes. We keep getting told that, but it is not happening. We are going to be told every day for the next two weeks at COP that we are miles behind where we need to be. The UK will hit its third carbon budget, which will finish this year, but it looks like we are behind plan for the next two carbon budgets, hence the need for an intervention like this one.

The private markets on their own have not adjusted their risk appetite or their return expectations. The money is not going to flow from the private markets quickly enough to get us to net zero.

Q45 **Mr French:** That was going to be my follow-on question. With some of this, do you believe that banks' return targets are why you are able to provide the capital that the market is not? If I take the earlier part of my career, the return target I had for an onshore wind farm is considerably less than what they can deliver now. Is that the role you see for the bank here? Are you willing to accept a lower return target to generate the investment of private capital in the market?

John Flint: That is a big part of what we need to do, yes.

Q46 **Mr French:** You made a point about direct equity investment. This was something I heard previously as a councillor when we were looking at pooling local government pension funds and the expertise that could be shared by pooling investments there, particularly targeting infrastructure. What kind of role and relationship do you see with some of those pension funds going forward for the bank, given that there has been a natural relationship that could be built on in terms of return targets for those pension funds?

John Flint: That is a really important issue for the bank. I suspect for the next 12 to 24 months international risk appetite for the UK might be somewhat moderated, given recent volatility. The domestic investor base is going to be important. We will need to play a really strong convening role in getting domestic investors, including the LGPS pools, alongside us.

Chair: That is the local government pension scheme.

John Flint: There is early evidence there. They have invested alongside us in a couple of things we have done. We are going to work that much harder. It is a great opportunity to crowd in not just private finance but other sources of public finance as well.

Chair: Thank you. That is a very interesting point.

Q47 **Sir Geoffrey Clifton-Brown:** Mr Flint, when will you be developing the bank's risk appetite policy?

John Flint: We have already developed a risk appetite statement for the bank. The board and the executive have defined what our appetite for various types of risk is. We have a risk architecture, risk archetypes and then appetite statements.

The most important hook for the Committee to think about is our economic risk capital budget. We have £22 billion of notional financial capacity, but we have an economic risk budget of £4.5 billion. We could not deploy all of our £22 billion into equity. We have to operate within that £4.5 billion of economic risk capital. While we have allocated about 6%, or £1.4 billion, of our £22 billion of nominal capacity, the amount of economic risk we have taken is a little higher than that because we have deployed some equity in this first year.

The real constraint for us from a risk perspective is to take all of our exposures and to translate them into an economic risk capital number, which always sits below £4.5 billion.

Q48 **Sir Geoffrey Clifton-Brown:** I understand that you have looked quite carefully at the British Business Bank's activities in relation to bounce back business loans. At the moment, you have a policy of outsourcing due diligence in your bank. Do you expect to continue doing that? For the relatively narrow class of investments you are investing in, will it pay for you to employ that expertise yourself rather than paying some outside organisation a huge profit for doing so?

John Flint: I need to clarify the question, if I may.

Chair: It is about due diligence. You outsource due diligence. At the moment, you do not have permanent staff in lots of roles.

Sir Geoffrey Clifton-Brown: The Report makes clear you outsource your due diligence operation.

David Lunn: The reference is to legal advice.

Sir Geoffrey Clifton-Brown: Is it just legal, not due diligence?

David Lunn: If we need a technical view, we may decide that it makes sense to get that out of house as well. The reference in the NAO Report was to lawyers.

John Flint: Yes, that is right. It comes back to your earlier question around pace. We do our own due diligence. When we decide to put a transaction from the early engagement committee through the investment process, we do our own due diligence in the first line and the second line of the bank. We get ourselves comfortable that we understand the risks we are taking.

We outsource some of the legal functions at the moment when it comes to negotiating and drafting the documentation. We will probably always do a little bit of that, but ultimately the rest of the due diligence stays inside the bank.

Q49 **Sir Geoffrey Clifton-Brown:** I have had a very helpful message whispered in my right ear. The due diligence and legal advice are often very close. There will be cases where you need to go out to the market and find legal advice. Fine, I have clarified that.

At page 8, paragraph 9, the Report says, "The bank aims to be aware of every major infrastructure deal even if it chooses not to invest". The Report also makes very clear in the conclusion on page 50 that "developing a clear view of where investment is most needed, and an impact framework that shows where the bank's interventions are most effective, will be vital to its future success". When do you expect to have developed that framework?

John Flint: There are probably two parts to the answer. Understanding and mapping the market is critical. The first piece of that is to understand Government policy, so mapping out all the different Government policy interventions that relate to our mandate. BEIS is the owner of a lot of that, but other Departments are involved too. We have to map that out in front of us, and have a deep and clear understanding of what we think our role is with respect to that.

We then take that and engage with the market. The combination of the two should mean we are not missing much. As a policy bank, one of our key roles is to amplify Government policy and make sure those policy objectives are met. If we are going into the market with that understanding, we might find that the market does not need us and is comfortable. You might say that offshore wind is an example of that today. That is where the market is. We are not really doing much, although that might change.

Then we might look at the hydrogen industry or at carbon capture and storage technology, which is new. The market might not yet have capacity there. We might say, "We have to save some of our dry powder, to put it to work there".

Chair: There have been three failed competitions for CCS so far, so good luck with that one.

John Flint: We will have to have a go at those. There was a second part to the question.

Sir Geoffrey Clifton-Brown: It was about the impact framework.

John Flint: We have been working on the impact framework from day one. I was quite restrictive in my role as accounting officer in the first year. I said, "Let us start with something simple, because as a public body it will be easier to add to our impact framework as we learn than it will be to take things away".

We started with relative carbon emissions. We started with jobs and private finance mobilisation. We will look to build that out. When will it be finished? Version 2 will be finished in the next two or three months, but I am certain there will be a version 3 and 4 that will come shortly afterwards. I do not really have an end date in mind for that.

Q50 **Sir Geoffrey Clifton-Brown:** Your local government advisory function is going to be very important. When do you expect to get that up and running, and how will it be paid for?

John Flint: It is up and running to the extent that we have now launched these pilots. That was a big moment for the bank. We are paying for a resource that we are lending to the local authorities. We do not charge for that service at the moment. We are keeping a very open mind about what the economic model is for this going forward.

As things currently stand, we do not have an intention to charge for our services. We want to be able to develop these replicable models and then to get them cascaded in the most useful way to local authorities, of course noting that we have a revenue stream on the lending side from local authorities that will probably end up paying for this. We have considered all the merits, the pros and cons.

Q51 **Chair:** You are going to reinvest the profit you are making from the loans into advice.

John Flint: It is an idea. It is not quite money for jam, but, from the bank's perspective, we get a revenue stream from lending to local authorities and there is certainly the possibility that they might pay—

Chair: It is a virtuous circle, potentially.

David Lunn: It is not ring-fenced in that way, is it?

John Flint: It is not ring-fenced. You are absolutely right.

Sir Geoffrey Clifton-Brown: It is at your discretion.

John Flint: We have thought about charging models. The reason we have been set up to help the local authorities is that they have resource constraints themselves. If we can find a way to do this as cheaply and efficiently for them as we can, there is a greater chance that our interventions will be successful.

Q52 **Chair:** The Treasury wants you to make a return to the Treasury when the review comes. Are you negotiating about that, Mr Jarvis and Mr Bowler? Is it a matter for you to make the decision on at this point?

John Flint: We will be open about our thinking when we do the annual reviews, but it is not a point of contention at the moment.

Chair: The fact you say "at the moment" tells me you have learned a lot about Whitehall already.

Q53 **Sir Geoffrey Clifton-Brown:** Sticking with that advisory service for a minute, I am a little concerned that the Report makes clear that you are likely to want to advise the bigger authorities rather than the small authorities. It is some of the smaller authorities that have got in the biggest trouble. For example, Spelthorne, with a normal income of £10 million, borrowed £1 billion from the Government loan board. When there are these sorts of problems, they need advice.

My own authority, with a normal income of £12.5 million, was going to go to the market—fortunately, the changes to the UK Public Works Loan Board this week have stopped it doing this—to borrow £79 million. It is some of the smaller authorities, like mine, that can get into some of the biggest problems. Why are you restricting or not giving advice to the smaller authorities?

John Flint: I do not mean to suggest that we are restricting access to the smaller authorities, but the reality is that we do not and will not have the resource to cover them effectively. We have said, "Let us start with the bigger ones because we think we can learn and develop the models the quickest". Then the challenge for us is to figure out how to get that to the smaller authorities in a way that is usable and useful to them.

Q54 **Sir Geoffrey Clifton-Brown:** That is fair enough. When will you be in a position to start equity loans?

John Flint: Hopefully in the first quarter of next year we will be able to write some small tickets. In the spirit of how we built the bank in the first year, we have a couple of small equity transactions in the pipeline at the moment, which might be a good way in for us. Yes, hopefully in the first quarter we might be able to do our first transaction.

Q55 **Sir Geoffrey Clifton-Brown:** If it is a sizeable and complex equity loan, will you, through UKGI, want to put directors on to the board of that company?

John Flint: That is a good question. It will depend on the investment. It is something we will have to be thoughtful about as we do this. What is our effective level of control? We will be thoughtful around that.

Sir Geoffrey Clifton-Brown: Yes, indeed, as well as the level of governance and everything else.

John Flint: For the couple that I have in mind when I am thinking about Q1 next year, we will not be taking majority stakes in anything.

Sir Geoffrey Clifton-Brown: They are fairly small and straightforward.

John Flint: They are small, but they are new technologies. That is why we think we might have a role to play in deploying some equity risk.

Q56 **Sir Geoffrey Clifton-Brown:** I have a very simple question. Paragraph 3.17 says that you have taken over the administration of the UK guarantees scheme, which in nine years between 2012 and 2021 facilitated 15 deals totalling £4.2 billion. Was that to make sure the bank's systems were up and running? What was the purpose? You might like to answer; Mr Bowler might like to answer. One of you might like to answer.

Tim Jarvis: If I could perhaps pick that up, we were able to build on the arrangements for the UK guarantees scheme in the creation of the bank. We had a company in Treasury, Infrastructure Finance Unit Ltd, which we repurposed to create the bank. That function effectively moved to the bank.

Q57 **Chair:** Was that something you thought of in April 2020 or was it when Ministers said, "You have to get this moving quickly"?

Tim Jarvis: No, it was always the intention to do that because we had that model there and we were able to build on it. It was one of the reasons we were able to move quite quickly. The skillset to monitor these sorts of guarantees, and the expertise to ensure that any losses are minimised and issues are brought to the attention of the Treasury as soon as possible, now all sits in the bank. It made sense to make an arrangement with the bank for it to administer that on our behalf.

Sir Geoffrey Clifton-Brown: That will be an ongoing function.

Tim Jarvis: Yes, until those guarantees have run through.

Q58 **Sir Geoffrey Clifton-Brown:** Finally, I have a policy question, perhaps for you, Mr Flint. One of your major policies is that you will do no harm. In seeking a project that achieves growth, how will you measure the harm or not that that project might do?

John Flint: It says, "Do no significant harm", which is helpful, I guess. This is in the context of us having these two objectives of net zero and regional and local economic growth. Helpfully, most net-zero transactions have a regional and local economic growth component. If we find an infrastructure transaction—for example, the digital ones we have already done—that is primarily focused on regional and local economic growth, we need to satisfy ourselves that it is not doing any significant harm against the net-zero objective.

A coalmine in the country that would create 1,000 jobs would be great for local growth, but we could not do it with our mandate because it is contradictory to the net-zero ambition. We will do it on a case-by-case basis and assess what significant harm is or is not.

Q59 **Chair:** You are operationally independent, so you have to interpret Government policy in that direction. If you were faced with that conflict on a day-to-day basis, how would you deal with it? Walk us through how you would deal with that in your relations with the Treasury and Whitehall.

John Flint: Yes, I also have no authority for anything that is novel, contentious or repercussive.

Sir Geoffrey Clifton-Brown: I was coming on to that.

Chair: The Treasury always manages to hold control. Mr Bowler is smiling broadly.

James Bowler: The Committee would love it to be novel, contentious and repercussive.

Q60 **Sir Geoffrey Clifton-Brown:** Let us deal with delegations. Who does what when? Who decides whether it is a novel, contentious or repercussive transaction? It will require the bank's approval and the Treasury's approval, but who decides the criteria for whether a particular transaction is covered by that?

John Flint: To come back to your question, Chair, how does it work in practice? Today, if it happens, we have a discussion at the executive level. If it was clear to us, we would just escalate to Treasury. If it was not clear to us and we thought there was doubt or ambiguity, we would escalate to Treasury and have the conversation.

Chair: Basically, you escalate to Treasury whatever.

John Flint: Sometimes it is clear and we know either way. We have not escalated a lot. We are very comfortable that the 10 investments we have done have not been novel, contentious or repercussive. We have an interesting transaction in the pipeline at the moment, which might involve the provision of a subsidy. We have not provided a subsidy yet. We will need to judge that in the context of the rules that govern subsidy and then whether it is either novel or contentious.

In areas of doubt like that, I would pick up the phone to Tim in the first instance, and we would discuss it with Treasury.

Q61 **Chair:** How quickly can Treasury act? You have a timetable you are working to. Whitehall is very good at many things, but it is not always fast, except for Covid.

James Bowler: It seems to be quite fast at the moment. We are asked whether things are novel, contentious or repercussive by Departments across Whitehall all the time and we take a view on that. This is a similar relationship, I would say.

Chair: It is quite quick; it is at pace.

James Bowler: I think so, yes.

Tim Jarvis: I have regular and frequent contact with John and we encourage the bank to flag deals that might fit into this category early so that, if we do have to get involved, we are not slowing down or, indeed, stopping the deal.

David Lunn: We might be saying, "We do not think this is novel, contentious or repercussive".

Tim Jarvis: These are conversations that we have with Whitehall Departments quite regularly.

Q62 **Sir Geoffrey Clifton-Brown:** Can I take you to page 32, figure 9? This is, again, the vexed question, Mr Flint, about operating expenditure versus average number of employees. That is an interesting table because it compares you with the British Business Bank. I am slightly puzzled. This is really going back to Anne Marie Morris's question. If you look at that table, operating expenditure for you in year 1 is £68.3 million, as you hinted at earlier, with an average number of 223 employees. By year 3, it is virtually the same operating expenditure of £69.6 million with an average number of employees of 320. In other words, it has gone up by nearly 40%.

If you look at the British Business Bank, its operating expenditure goes up hugely when its average number of employees goes up from 107 to 258. Why does your operating expenditure not go up when you increase your employees by nearly 40%?

John Flint: Part of it is due to the mix of expenditure. There are some expenses in the early years of set-up that we will not incur in outer years, for example IT and IT infrastructure. It is also the case that, as the workforce mix changes and we go from contingent or contract workforce to permanent workforce, there will be a bit of a reduction there. I am going to ask David to help me out as well. What else am I missing?

David Lunn: Partly, these are budget numbers. They were taken originally from our business plan from January this year. As John said earlier, the actual expenditure is going to be significantly lower than this in this year. We are looking at £45 million to £48 million, give or take. These numbers have moved around a little bit. In truth, there was always a good amount of contingency in there. We are growing rapidly; we wanted to make sure we had the funds to allow us to do that.

Q63 **Sir Geoffrey Clifton-Brown:** Can I ask you about delegated authority? I cannot find the table now, which is annoying me. From memory, any transaction above £100 million requires the bank board to sanction it. Transactions below that do not. There is a table there of various circumstances, according to the different risk categories. I am sorry; I cannot find that table.

John Flint: It is on page 53.

Sir Geoffrey Clifton-Brown: Thank you very much for pointing me to our own report. That is very helpful. It is in the appendix. That is why I could not find it. Who set those delegation limits? How did you set them?

John Flint: The delegation limits for the bank were set by Treasury. I had a discussion with the board about these intermediate delegations. In the world I grew up in—the private sector world—the shareholder delegates to the board and then the board delegates authority to the chief executive. In the public sector, my authority comes directly from the shareholder and the board is bypassed.

We put this mechanism in place. It is more consistent with what I have been used to and what the chair has been used to. It is just another level of check. It is entirely appropriate because we are still building. We have the need for a conversation with and, indeed, an approval from the board before we can go above these limits, even though they are within the Treasury's limits. It is another layer of prudence and check, effectively.

Q64 **Sir Geoffrey Clifton-Brown:** I understand. Finally from me—you have been very clear with us today—you have been involved heavily with all sections of a large private sector bank. What could you bring to bear from that on this bank? What from your experience of the private sector could you usefully use to improve its effectiveness? No doubt you have done so already with some of the measures you have talked about, but it would be interesting to hear about the wealth of experience you have.

John Flint: That is interesting. The starting point has to be that the mission and narrow focus of this bank is really quite helpful. We have a mission that is really of the moment. In the next two weeks, we are going to hear all about how far behind we are and what the implications of not getting on top of net zero are. That is allowing us to attract some really high-quality people on public sector pay and take people out of the private market.

I hope to be able to use my leadership experience to attract really great people; create the right environment to go out and solve some of these problems; and be additional. We are always going to be a small organisation, but I hope we can develop a nimble, agile, cheap and good-value-for-money organisation that is solving problems.

The type of people we are able to recruit love it when I express a challenge in this way. We are going to develop this Government-sponsored niche investment bank in Yorkshire that is going to solve problems that Morgan Stanley, KKR, Blackstone, Goldman Sachs and HSBC cannot solve on their own. We will do that with people who are happy to be on the public sector pay scale. People are really responding to that challenge.

Q65 **Sir Geoffrey Clifton-Brown:** You are allowed to pay above the public sector pay scale in certain circumstances.

John Flint: We are. The pay and reward framework we have, in the context of the public sector, is very good. In the context of the private markets, it is weak. That is why some people who are qualified to come and work for us will not. Those who want to come are really inspired by the mission. I just have to try to create the right environment so they can be successful.

Q66 **Sir Geoffrey Clifton-Brown:** I am going to ask this question, Chair. It is probably stepping on somebody else's toes. We have been tiptoeing around it. In your opening remarks, you said you have 16 "bankers" and you wanted to get to 70-plus. Are you fully confident you are going to get that level of people so that, when you are up and fully fledged in 2023, you will have the full complement of staff?

John Flint: The early signs give me confidence that we can get there. We might need to be a little patient. I have made the decision that we are not going to compromise quality for speed. If that means we have to wait a little longer than we might otherwise wait for the right candidate to be ready to work in Leeds—that is where we are building the bank—we will wait. The early signs are broadly encouraging. We still have a lot of work to do, but the early signs are encouraging. We can do it.

Chair: There are a further 40 on the way, according to your letter. They are just waiting for their notice periods. That number is ramping up.

John Flint: Yes, it is.

Q67 **Mr Djanogly:** I would like to build, if I may, on Sir Geoffrey's comparison of the public and private sectors in relation to corporate governance. The bank was launched in June 2021. Non-executive directors were not appointed until June 2022. For a year or more there have been no NED corporate governance structures, so presumably no audit committee, remuneration committee or internal audit function. I also understand there was a very late adoption of internal controls. How did this happen?

Tim Jarvis: We had an interim board in from the launch of the bank in June 2021. We had the permanent chair. We had appointed Chris Grigg at that point, and he was the permanent chair of the board and remains so. We had an interim board that provided the governance for the bank during that period while we recruited the permanent board.

We did that at a time when the decision making for deals was retained in the Treasury with the Treasury accounting officer and signed off by Ministers. The delegations to the bank only took place once it had built up its operational capacity and, indeed, once we had the governance in place.

It has been a process of building that up. We now have a full board in place, and we now have all the relevant committees. The bank was not able to meet the requirements of the corporate governance code, which may be what you are referring to.

Mr Djanogly: That would have required you to have all those systems in place before you started.

Tim Jarvis: Exactly, but we are confident the bank will be able to meet that by its next annual report.

Q68 **Mr Djanogly:** You answered my question in terms of operation. I am not talking about operation here; I am talking about scrutiny. I am not even talking just about scrutiny. In the modern context, that would also go to vision, what the company is going to be doing and all the sorts of things we were talking about before. In a private context, that would be simply unacceptable or unobtainable without a board of non-executive directors.

Tim Jarvis: As I say, we did have a board of non-executive directors. They were not the permanent board. Some have stayed on; not all have.

Q69 **Chair:** Can I just ask how you recruited the interim broad?

Tim Jarvis: We had Charles Donald, who was the Treasury representative on the board from UKGI. He was appointed to the board. We also had Gay Huey Evans, who is on the sub-board of the Treasury, who was asked to go on to the board.

Chair: These are people in the civil service or the Whitehall arena.

Tim Jarvis: Yes, at that point in time.

David Lunn: There was also Chris, of course.

Tim Jarvis: Yes, Chris had come externally, as the chair of the board.

Chair: He was the only external appointment.

Tim Jarvis: Yes, which is why there has been a phased approach. All the things you quite rightly talked about that we need to put in place in terms of governance have been built up over time. As that governance has built up, you have seen a transfer from the Treasury to the bank. In the early days of the bank, the oversight, the vision and all the things you have just described were largely set by Treasury. Over time, as we have built up the governance of the bank, that has transferred over.

Q70 **Mr Djanogly:** Finally, Mr Bowler, have you been looking at this in a more generic sense rather than specifically about the bank? Is this an acceptable way that this should have gone or should happen in the future?

James Bowler: You are right at the heart of the NAO Report there. It was the decision of Ministers to do this relatively quickly. It did not come out of the blue. In 2018, the National Infrastructure Commission was talking about this. It was the decision of Ministers to go quickly. We only did an outline business case in this case. Our own advice would normally be to do two more.

They took that decision on the basis that we were not going to have access to the EIB; that net zero was now here and pressing; and that they wanted the bank to be operating as we recovered from covid. Having taken that decision, it was our job to set it up to ensure that we delivered value for money. The phased approach, which saw us have very tight controls until such time as the recruitments had taken place, meant it was a Treasury accounting officer and Treasury Ministers signing off all of those early deals until such time as we had recruited enough and we could delegate that. That change happened in December 2021.

No, ideally we would have done the full business cases and made much more progress on appointing more permanent staff before we did that. This is not best practice in terms of what we set out, what you set out and what "Managing Public Money" sets out, but the reasons were there and Ministers took the decisions they took. We very deliberately took this phased approach with the checks and balances in place because of that.

Q71 **Chair:** Did anyone consider a ministerial direction? As Mr Djanogly has pointed out and as you mentioned, the outline business case was completed, but the NAO highlights in figure 7 that it was not in place but planned at the point of launch and there was no full business case. That is quite a useful example of seeing where things were not done. What were your biggest worries, Mr Jarvis, about the things that had not been done at the point of launch? Where were your worries about the risks posed by not being able to go through all those normal processes because of the pace?

Tim Jarvis: It is important to remember that we had this function already in the form of the Infrastructure Finance Unit Ltd.

Chair: That was your comfort blanket.

Tim Jarvis: That was a company that was in place. We had processes around it for the guarantees that were given under the UK guarantees scheme within Treasury. We were able to build on that. The important thing was that we did not build on that more quickly than we had the skills and expertise to scrutinise.

Q72 **Chair:** I am hearing caution coming through, yet even the accounting officer letter was not in place but planned. We have had quite a big row in the last week or so with another Department that has been very poor on providing some of this information to this Committee, and the accounting officer letters have been very poor across Government. We are getting a whole backlog now coming through to this Committee. You are the Treasury. You have the Treasury Officer of Accounts who holds people to account for this, and yet on this very important project there was not even an accounting officer letter. They are not that difficult to produce, are they, Mr Jarvis?

Tim Jarvis: Can I just clarify that to ensure we are talking about the same thing? The accounting officer for the bank until January 2022 was the then Second Permanent Secretary in the Treasury, and there was an accounting officer letter to him to fulfil that function. When the systems were in place, when the bank had built up its capacity and when John had been appointed, had his accounting officer training and written to the Treasury confirming that he was comfortable with the processes in place to take on the delegations we were proposing for him, we then issued a letter to him.

Q73 **Chair:** Effectively, the first one did not need it because they were already an accounting officer.

Tim Jarvis: Yes, there was always an accounting officer. It was just the movement of the accounting officer from the Treasury.

James Bowler: Yes, the phased approach says, "We will do it until you are capable of doing it, and then you will do it".

David Lunn: It was Charles Roxburgh, Second Permanent Secretary.

Q74 **Anne Marie Morris:** Mr Flint, you have a conundrum. Success for you means, to make more investments, you need more people. You have said—I absolutely support this—you want your people to be still of a very high quality. You are recruiting in a market that, at the moment, is very difficult. Recruiting a top banker to go to the very beautiful parts of Yorkshire you are in is not the easiest thing to do. How are you going to square this circle? Effectively you stymie the business if you cannot sort the problem.

You said earlier that you could see that this was positive, but at the moment, looking at the tables in the report, the temporary staff is a very big bill. They need to be converted into permanent. You do not have enough permanent staff so you are currently outsourcing. How are you going to square this circle?

John Flint: As you articulate it, that is the key leadership challenge for me at the moment. That is the most important thing I need to do. Of 162 staff, only 16 are permanent. We have 40 offers out there in the market. They have mostly been accepted. They will come on board. That is the key leadership challenge for the next 12 to 24 months.

How are we going about it? Every role is competed for. We are not anointing anybody. We have some very good temporary staff, but we are not giving any of them the roles on a permanent basis. Every role in the bank is going to be competed for. That is adding some time to the recruitment process. We are being stubborn, frankly, on the quality aspect. We are not going to fill seats just for the sake of filling them.

Can we continue to build the skills and capabilities of the bank, even if progress is a little slower than we might like? Yes, we can. In the second year we will make more progress than in year one, but it is not a trivial challenge. The key thing that will get people into the bank is the mission and purpose of the bank in the context of the problem we are trying to solve. That is the key attraction.

Hopefully, over time, we can build a bit of an employer brand around the bank. It can be a great place to learn. Take finance; for the next 20 years, the hottest and most important sector in corporate finance is going to be how to finance the transition to net zero. If you want to learn how to do that, come and work with us. If you are from the private sector and you want to learn how the public sector works, as I am doing, come and work for us. If you are in the public sector and you want to be part of building a bank, come and work for us. We are pulling all the levers we can. You are right: it is not a trivial challenge.

Q75 **Anne Marie Morris:** You have accepted the challenge. Do you really think that the timeline you have set is acceptable given the challenge that this bank has? Right at the start, many of the things you would normally have done were truncated and many things happened that would not normally have happened with quite the speed they did. Is there a risk that perfection is going to be what effectively stops the bank succeeding in the way it might?

Chair: Perfection is the enemy of just getting on with it.

John Flint: It is a good challenge. I do not think so. We are going to maintain high standards. We do have to solve problems that others cannot solve. We do have to make sure we are not dumb money in the market. We have to be able to go head to head with the other players who have lots of skill and experience.

We have made commitments of £1.4 billion; we have done 10 transactions in our first year. Some think that is too quick; some think it is too slow. My principal role as accounting officer is to go as quickly as we can while making sure we are always able to manage the risks that we are taking.

Q76 **Anne Marie Morris:** I am going to challenge you here. You are trying to do something very difficult, as in attracting talent to Leeds.

Chair: So speaks a Devon MP. If it was in Dawlish, I am sure it would be brilliantly easy.

Anne Marie Morris: I wish that was so, Chair, but sadly I have exactly the same problem. My empathy is absolutely with you. Recognising that challenge, you will need some innovative thinking in terms of your message, which you have very clearly and very compelling set out. How will you convert your vision, which you have set out very well, into a proper recruitment process that does something innovative and is not the standard way you recruit bankers?

Unless you can find an innovative way through this, you are going to have the same problems in Leeds that I have in Newton Abbott.

John Flint: I would like to think that our potential recruits have also heard the narrative you have heard from me today. We have used various channels and technologies, video messages and so on, to convey that. We are using the traditional recruitment channels of head hunters and so on, but we are also using our own personal networks.

One of the reasons I was very deliberate about starting the recruitment with my exco was that, if I recruit the seniors well, they will also attract their own talent—their own followership—with them. We are starting to see that. Our CFO was the CFO at the Canadian Infrastructure Bank. She has left Canada to come to Yorkshire.

Chair: I am sure the shadow Chancellor will be delighted to hear all this.

John Flint: Our chief risk officer was at the Green Investment Bank and then he went to Macquarie. He has left Macquarie to come to us. I can go on, but all of these people have their own networks. They have people who would like to follow them. None of their contacts will be anointed.

Chair: I am glad you have just clarified that.

John Flint: These people will go into the process and compete for the roles along with everybody else. We are trying to be innovative. If you have any ideas beyond what I have said, I would love to hear them.

Q77 **Anne Marie Morris:** Banking is normally a young person's business, but there are plenty of retired bankers. Some of them are going to be living in Leeds. There has to be a market that you would not normally get to, dare I say it. These are different and difficult times. Just because people get over 50, it does not mean they lose it. It seems to me that there is a market that perhaps remains untouched.

The second thing I would say is that often attraction, particularly if it is Leeds, is about what you can find within Leeds that you can build on some existing skills in some related sectors. Think local. "How do I grow that?" Then there is the post-retiree bit.

Then I am going to take you back, I am afraid, to your temporary staff. I totally understand why you want to keep the quality and not give them a quick route in, but, my goodness, would it help your budget. Have you thought long and hard about how you could create a new scheme to get the quality up through training and development, and so on, so you can get some of your temporaries to be permanent?

There are a few ideas. Do you have any thoughts?

James Bowler: I am just going to jump in, as someone who has an economic campus in Darlington. The majority of financial service employment is outside London. Leeds is a very well-known and large financial services market employer, as are parts of Scotland. As the Treasury Permanent Secretary, I need to not just—

Chair: I am sure you are also cheering for the over-50s, as are most of us in this room.

James Bowler: I would be very keen for more active over-50s. I will give you that one.

Q78 **Chair:** Mr Flint, is there any other quick point you want to make in response to that?

John Flint: Yes. We have not really thought about retired staff, but we are being very deliberate around the senior financiers who get to the end of their careers in London and for whom the final chapter might be, particularly if their family or home is in Yorkshire, three to five years with us training up junior people and doing some really interesting transactions. We already have a network into that opportunity.

Q79 **Chair:** Of the temporary staff, are many on the interim payment? Is the pay challenging because you are paying them through interim arrangements? Are they paid at the same rate as they would be if they were on payroll?

John Flint: No, they are paid interim rates.

David Lunn: We have a decent number of civil service secondees as well, like me. They are on a different arrangement. For interim staff, it is day rates.

Q80 **Chair:** Have any of them gone over six months?

David Lunn: I would not be able to give you an exact number.

Q81 **Chair:** It would just be helpful to have a bit of a profile on that. We see quite a lot of this, particularly in the NHS. Every time there is a restructuring, an awful lot of interims are paid for quite a long period of time.

David Lunn: I cannot give you an exact number, but a good number would have gone over six months.

Chair: We would like to keep track of this. Good recruitment is great, but there is also a cost to doing it. We have all appreciated what you have been saying, Mr Flint, about caution.

David Lunn: I am very happy to write.

Q82 **Chair:** I want to come in quickly on a couple of points. When we looked at the Green Investment Bank, we discussed what an enduring institution would be. In the great way that Whitehall works, the Treasury intends the UK Infrastructure Bank to be a long-lasting institution. Mr Bowler, as the new Permanent Secretary, is there a difference between an enduring institution and a long-lasting institution? Are you hoping that this will be here for longer than the Green Investment Bank?

James Bowler: Yes, we are. If you want commitment from the Treasury to infrastructure, our capital budgets have increased by 60% from 2019 to 2024-25. We are setting in place the long-term structures to deliver this enormous challenge of infrastructure generally and net zero. I am not quite sure what the difference is between enduring and long-lasting, but it is here to stay.

Q83 **Chair:** That brings me to the framework document. It talks about the funding, which we have covered a lot. The funding is provided for the first five years. Mr Flint knows he has the first five years in the bag, as far as anything else goes. I am thinking about documents that may not be in the public domain. Are the Treasury's expectations for the bank time-limited? Is that five years just to cover the first phase?

Tim Jarvis: I will pick that up. It is just to cover the first phase. This is the initial capitalisation of the bank over a five-year period. The review after three years is partly to look at whether that is the right amount and the right judgment. It is also open to the bank to build up its balance sheet over time through the return on its investment. We expect to see the bank build up over time.

David Lunn: The profits recycled to the bank should be about £22 billion.

Q84 **Chair:** Yes, the profits are coming back, but it is likely that the Treasury may take a dividend. At the three-year review, you will start to look at that dividend.

Philip Duffy: We have set a long-term—to 2050—planning horizon for overall infrastructure spending called the NIC fiscal remit, within which the NIC operates in. When we get to next year to look at this, we will look at that fiscal remit. It is 1.1% to 1.3% of GDP. We are comfortably at the top end of that currently.

We will have to make some choices. Going back to the first question Mr Clifton-Brown raised, when we have trade-offs we would see spending via the bank to be a very efficient way of spending money on infrastructure because we lever in more private money and we get more innovative technologies through. A comparison between that and direct spending makes it look quite good.

Q85 **Chair:** You could say the same about the Green Investment Bank, and yet it was sold off.

Philip Duffy: We are absolutely not disagreeing with you on that.

Q86 **Chair:** Yes, I have heard the coded messaging. Anyway, we are here again. We will soon run out of titles for banks. That brings me to the different bodies with which you will be working, Mr Flint. It would be helpful to know what your interface is with—I will run through them—UKRI. Are you talking to them about investments? They are doing a lot of work on the investment in research.

John Flint: I am not personally. I do not know whether the policy team is.

David Lunn: We do, but I would not be able to give you the details of it.

Chair: It is on your horizon.

David Lunn: They are on our list.

Q87 **Chair:** The British Business Bank is in a slightly different sphere. We have talked about the Treasury. How are you interacting with the Public Works Loan Board? This is partly going to the additionally point. If they are already lending, would you be lending in the same sector?

John Flint: At an operational level we have a dialogue with them, because we need to use them in our current form if we want to disburse. We will not be working or collaborating with them beyond that.

Q88 **Chair:** How would you make sure you were not duplicating and you were providing additionally?

John Flint: In the way our local authority lending facility has been set up, there is a financial incentive for a local authority to borrow from us for infrastructure rather than the PWLB. It comes 20 basis points cheaper from us. If the local authority chooses to go there instead, that is its choice. We do not have the right to intervene.

Q89 **Chair:** Is there any problem there with the Public Works Loan Board because of that preferential lending rate?

John Flint: No.

Philip Duffy: Can I just clarify? They are not an advisory service or institution; they are a debt facility, which is self-certified by the prudential officeholder in the authority. You cannot ring them up and ask for advice on an infrastructure project.

Chair: No, absolutely. If only they did give advice on projects, as Sir Geoffrey said, there might have been fewer problems.

Philip Duffy: There is a tension between those two things.

Q90 **Chair:** You are listening to the National Infrastructure Commission a lot. You have a good relationship with them.

John Flint: Yes. I have a dialogue with them. I am due a quarterly catch-up with them. Bridget Rosewell is currently a commissioner, but she will step off the commission because she has joined our board. We have connectivity there. They are also going to be taking some space in our office in Leeds because they are going to be putting 10 people in Leeds as well. We are going to be co-located.

Q91 **Chair:** Then you have the Departments. I am thinking particularly of DLUHC and DEFRA. They are involved with local authorities, particularly DLUHC. Apart from the Treasury—as you are sitting with them, you are probably going to say they are your best friends—which other bits of Whitehall do you work with?

John Flint: Our second best friends would definitely be BEIS. We have very active discussions with BEIS because its portfolio overlaps ours. We work with the Department for Transport, DEFRA and DLUHC. I have not yet established personal connections with DEFRA or DLUHC, but that is in the calendar. Yes, at a working level it is a very active space for us.

Q92 **Chair:** If the Department for Transport says, "We want to build a railway and we really want you to invest", you are going to be under a lot of pressure to do that. Do you have the mechanisms in place to manage the pressures from competing Whitehall Departments?

John Flint: I am the accounting officer. We have an established framework document. We are operationally independent. I have a board that I can consult, which is also part of that independence. We will make our own decisions.

Q93 **Chair:** We have got that impression very clearly today. Are you at all connected with what ARIA is doing in the space sphere?

John Flint: No, I have never heard of it, candidly.

Q94 **Chair:** There you go. We are probably quite relieved about that, given the amount of taxpayers' money that has gone into that for so far very little return. We looked at that recently.

Mr Flint, you have talked a lot about recruitment. You have come from a lucrative private sector career. You have presumably taken a significant pay cut to do so. Why? Will you be staying?

John Flint: Why did I come? There are three really compelling reasons. First, there is the ability to build something new from scratch. I have been in a large organisation for my entire career. This was the opportunity to learn how to build something new and to do a start-up. Secondly, it is a great opportunity to learn how the public sector works. I had never really spent much time or energy thinking about it. Thirdly, there is the ability to go deep into a sector. For a lot of the last 15 years of my career I have been a generalist across all things finance. It is nice now to go deep into a sector and gain some specialism.

It was just a very compelling opportunity for me. When I say it like that, it is quite a selfish list of things because it is all about my learning. That was why I was keen to do it.

Q95 **Chair:** Are you going to stay?

John Flint: As long as I am invited to stay, yes.

James Bowler: He is invited to stay.

Chair: There you go. Mr Bowler is giving you his seal of approval. Thank you very much indeed for your time. We will be publishing the transcript of this uncorrected on the website in the next couple of days and our report will come out quite possibly early in the new year given we are only seven weeks from Christmas recess, believe it or not. Thank you very much indeed.