House of Commons

Committee of Public Accounts

The Creation of the UK Infrastructure Bank

Thirty-Fourth Report of Session 2022–23

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 16 January 2023

HC 45
Published on 25 January 2023
by authority of the House of Commons

The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No. 148).

Current membership

Dame Meg Hillier MP (*Labour (Co-op), Hackney South and Shoreditch*) (Chair)

Olivia Blake MP (*Labour, Sheffield, Hallam*)

Dan Carden MP (*Labour, Liverpool, Walton*)

James Cartlidge MP (*Conservative, South Suffolk*)

Mr Simon Clarke MP (*Conservative, Middlesbrough South and East Cleveland*)

Sir Geoffrey Clifton-Brown MP (*Conservative, The Cotswolds*)

Mr Jonathan Djanogly MP (*Conservative, Huntingdon*)

Mrs Flick Drummond MP (*Conservative, Meon Valley*)

Rt Hon Mark Francois MP (*Conservative, Rayleigh and Wickford*)

Mr Louie French MP (*Conservative, Old Bexley and Sidcup*)

Peter Grant MP (*Scottish National Party, Glenrothes*)

Anne Marie Morris MP (*Conservative, Newton Abbot*)

Jill Mortimer MP (*Conservative, Hartlepool*)

Sarah Olney MP (*Liberal Democrat, Richmond Park*)

Nick Smith MP (*Labour, Blaenau Gwent*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No. 148. These are available on the Internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website and in print by Order of the House.

Committee staff

The current staff of the Committee are Jessica Bridges-Palmer (Media Officer), Ameet Chudasama (Committee Operations Manager), Sarah Heath (Clerk), Tom Lacy (Chair Liaison), Rose Leach (Committee Operations Officer), Ben Rayner (Second Clerk).

Contacts

All correspondence should be addressed to the Clerk of the Committee of Public Accounts, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5776; the Committee's email address is pubaccom@parliament.uk.

You can follow the Committee on Twitter using @CommonsPAC.

Contents

Summary

Government created the UK Infrastructure Bank (the Bank) to help deliver on its aspirations to support the UK's net zero commitments and level-up the regions. The Bank is approaching 18 months into its life and is still in its early stages of development; so far it has deployed £1 billion of its £22 billion capital to 10 deals and its advisory function to local authorities is being piloted. However, it is behind plan in its recruitment, with only 16 permanent staff in post against a target of 320; and it does not yet have powers to lend directly to local authorities. The Bank expects to reach 'steady state' in Autumn 2023.

Given its limitations, it was sensible for the Bank to adopt a cautious approach to early deals. But the Treasury does not seem to have a reporting approach which allows Parliament early sight of any significant emerging problems. The Bank faces trade-offs in many areas, for example in taking on investment risk to open new markets, while protecting the taxpayer; and deciding which local authorities to prioritise. The Bank does not yet have a clear strategic approach to managing these trade-offs; nor a clear explanation of what it is doing, that the market is not ('additionality'). It is essential that the Bank develops strong performance measurement and evaluation of its important objectives to ensure it is adding value in its work and remains accountable to Parliament.

The Treasury set up the Bank quickly and, in rushing, Treasury chose not to follow its own business case best practice and normal government guidance for the establishment of an arm's length independent body. Gaps in the Bank's initial governance arrangements meant it was non-compliant with the UK Corporate Governance code for its initial year of operation, and the Bank had to lean heavily on Treasury's processes and controls. The Bank is still closely linked to the Treasury, which could limit its operational independence. But we acknowledge that it was set up very quickly on the insistence of Ministers. Time will tell whether moving at this speed has proved beneficial to the long-term stability and functioning of the Bank, as well as whether it was the best way for taxpayer's money to be used to achieve its stated aims.

Introduction

Investment in infrastructure is essential to outcomes for consumers, the environment and disadvantaged areas of the country. In June 2021, the Treasury launched the UK Infrastructure Bank to encourage private finance alongside public investment, and to achieve two strategic objectives – helping to tackle climate change, and supporting regional and local economic growth. The Bank was set up as a publicly owned company, in part to be seen to be independent of government. The Treasury is the sole shareholder, with UK Government Investments as its representative on the Bank's Board. The Treasury has provided the Bank with up to £22 billion of public money over its first five years, for loans, equity investments and guarantees to support infrastructure projects. The Bank will also provide an expert advisory service helping support local authorities with infrastructure projects, and will make loans directly to local authorities wishing to invest in infrastructure.

Conclusions and recommendations

1. **The Treasury's decision to launch the Bank at pace had both positive and negative consequences.** The government identified a clear rationale for the Bank, with the scale of the investment challenge and the loss of £5 billion a year funding from the European Investment Bank when the UK left the EU in 2020. Ministers wanted the Bank launched at pace, and to make early deals. The planning stage took 10 months. Moving at this pace meant the Bank could make six early deals in its first full year of operation. However, corporate governance was initially weak. For example, without a full suite of non-executive directors, the Bank did not have an effective audit and risk committee. It was a significant risk to begin operating without this governance. The Treasury and the Bank managed this risk by seconding Treasury officials to Bank posts, and through the Bank choosing low risk early deals, approved through Treasury processes. Corporate governance has since improved, by filling key positions and running a significant senior recruitment drive, and the non-executive directors are now in post. The Bank is intended to be operationally independent, but the issues with corporate governance initially, and the continued reliance on Treasury systems, staff, and approvals raises serious questions of the Bank's ability to make autonomous investment decisions.

   Recommendation:

   By April 2023 the Treasury should write to the Committee:

   - ***Setting out the long-term plans for the institution, including when reviews will be made and by whom;***
   - ***Assessing whether the governance arrangements in place are the right ones, explicitly considering the level of engagement and expertise that UK Government Investments as a shareholder representative brings to bear, and reporting on these to Parliament;***
   - ***Setting out criteria for assessing whether operational independence for the Bank is working as intended, and for reviewing based on those criteria; and***
   - ***Identifying lessons learned from setting up at pace and whether this was the best way to launch an organisation of this type.***

2. **The Treasury and the Bank have not yet put in place the conditions necessary for the Bank to be a successful and long-lasting institution.** The government wants the Bank to be a "long-lasting institution", providing financing for infrastructure projects well into the future. The £22 billion made available to the Bank covers its first five years of operation; beyond then, the Treasury expects the Bank to be self-financing. However, there is no guarantee the Bank will achieve this, with little clarity over whether the Treasury will provide further funding in the future. If the Bank does prove to be profitable, there is little to prevent it being sold off, in a similar manner to the sale of the Green Investment Bank in 2017, beyond assurances from Treasury officials that government wants to keep it within the public sector. Staffing challenges are acting as a brake on the Bank's ambition, as its capacity to

make complex and innovative deals is limited by a lack of suitably qualified staff. Currently there are 16 permanent employees, a significant shortfall against its plan of having 270 in place by September 2023. The remaining 150 or so staff are contractors or Treasury secondees. The Bank is also reliant on the Treasury in other ways, including its IT systems for day-to-day operations.

Recommendation:

- ***The Treasury and the Bank should report to Parliament six-monthly on the roll-out of the Bank, including updates on recruitment, deals made and progress towards the operation of their own internal systems (e.g., IT systems). This should include timescales for future milestones.***

- ***The Treasury needs to be much clearer in its reporting of its expectations of the Bank, including its financing support, its plans for taking dividends, and the long-term ownership plans by defining more clearly what it means by the phrase 'long-lasting institution'.***

3. **We are not convinced the Bank has a strategic view of where it best needs to target its investments.** The Bank's 10 deals to date have mostly been relatively conventional investments, including seven loans. While the Bank's early deals reflected a sensibly cautious approach, it is not yet capable of making the full range of investments it could potentially make, and will not be able to do so until it has sufficient staff qualified to make more complex transactions. The Bank claims to be filling gaps in the market and making investments the private sector would not consider, but so far the Bank has provided financing to deliver broadband and build solar farms, both relatively common projects. The Bank struggled to articulate the priority areas for investment, and how it will recruit staff necessary to fulfil its role. The Bank can only deliver on the government's ambition and wider objectives if it moves beyond making "safe" investments, because the scale of the challenge is so severe. The Bank has not demonstrated it has a clear idea of how its investments complement each other and provide additionality. In addition, they are not yet making direct equity investments, instead investing through equity funds.

   Recommendation: ***The Bank should write to the Committee within 3 months outlining its investment strategy for making a full range of investments, including a timeline for when it expects to be making deals proactively.***

4. **The Bank's advisory function remains in the early stages of development and uncertainty remains on how it will be funded and how smaller local authorities will benefit from its activities.** The Treasury intends the Bank to provide advisory services to local authorities regarding infrastructure projects. This function is currently in pilot phase with three large unitary authorities—Manchester, West Yorkshire, and Bristol—with the aim of creating solutions that are replicable across all local authorities. However, we are concerned that smaller local authorities who may need more support than larger ones (owing to the size of their resources, capacity and capability) should not be left behind in receiving the Bank's support. The Bank has not worked through how this function should be funded and is currently planning to offer this advice for free while it seeks to establish the replicability of

its advice. However particular attention needs to be given to avoid past mistakes of making risky loans to local authorities on property and other capital projects which put the authorities' overall finances at risk.

Recommendation: ***Upon completion of its three pilot schemes, the Bank should write to the Committee setting out how its advisory function will work in practice, including how it will design a funding model that reflects the cost of the support provided, and regulates demand. The Bank should also outline how it will ensure smaller authorities are not left behind.***

5. **Maximising the Bank's impact will depend on close cooperation with government departments, but it has not yet worked out how this will operate in practice.** The Treasury intends the Bank to play an important role in achieving key elements of this government's wider agenda on net zero and levelling up, as reflected in the Banks dual objectives. The Treasury expects the Bank to set out how it intends to work with stakeholders, including policy departments across government. To date the Bank has had limited communications with key stakeholders at senior levels, including the Department for Levelling Up Housing and Communities (DLUHC) and the Department for Environment Food and Rural Affairs. Engagement with DLUHC in particular will be critical to understanding the needs of local authorities, which will then inform the Bank's loan and advisory programmes. The lack of clarity surrounding relations with other departments raises the risk that different organisations responsible for net zero and levelling-up could be pulling in different directions.

   Recommendation: ***In its Treasury Minute response, the Bank should describe its engagement strategy for working with government departments, focussing in the very short term on how it engages with those departments most critical to delivering its mission, including the Department for Environment Food and Rural Affairs, the Department for Levelling Up Housing and Communities and the Department for Business, Energy and Industrial Strategy.***

6. **The Bank has not fully set out how it will measure and report its performance, and how it will evaluate its activities to ensure that it can demonstrate additionality.** Evaluation is crucial to ensuring the Bank delivers additionality and that the benefits justify the costs of creating it. The Treasury has set a financial return target, but the Bank has only just started work on developing its own performance measures, and has not fully defined what success looks like, to inform future monitoring and evaluation. There are tensions within the Bank's objectives; for example, pursuing a project that delivers against its economic growth objective would not necessarily be compatible with its climate change objective. The Bank is yet to set out how it will address these tensions in practice. The Bank has also made little progress in measuring additionality; this is challenging but essential for determining whether the Bank is genuinely adding value, and not 'crowding-out' private sector investment. The Bank has developed arrangements for reporting performance and emerging issues to its shareholder, the Treasury, through the shareholder representative, UK Government Investments. However, the Committee has seen other examples in government where similar arrangements failed to escalate problems to Parliament.

Recommendation: ***By March 2024 the Bank should write to us detailing how it has implemented a full suite of performance metrics and targets including productivity and green performance, together with a forward plan for evaluation that includes additionality assessments. It should at the same time outline how it will publicly report its performance and the results of its evaluation over time.***

1 Accountability and governance

1. On the basis of a Report by the Comptroller and Auditor General, we took evidence from HM Treasury (the Treasury) and the UK Infrastructure Bank (the Bank) on the creation of the Bank.[1]

2. Infrastructure investment is essential in improving outcomes for consumers, the environment and disadvantaged areas of the country. In 2018 the National Infrastructure Commission recommended the creation of an infrastructure bank.[2] In June 2021, after 10 months of planning, the Treasury launched the Bank to encourage private finance alongside public investment. The Bank was created to achieve two strategic objectives – helping to tackle climate change, and supporting regional and local economic growth. The Bank has been set up as a publicly owned company, in part to be seen to be independent of government, with the Treasury as sole shareholder, and with UK Government Investments (UKGI) acting as its representative on the Bank's Board.[3]

3. The Treasury has provided the Bank with up to £22 billion of public money over its first five years to make loans, equity investments and guarantees to support infrastructure projects. Of this £22 billion, Treasury will provide up to £5 billion in the form of equity, £7 billion can be borrowed through either the Debt Management Office or private markets, and up to £10 billion can be used as guarantees for projects.[4]

4. Since it began operating, the Bank has made 10 deals valued at just over £1 billion, in the form of loans, both to local authorities and the private sector, and equity fund investments where fund managers invest on behalf of the Bank.[5] The Bank is expected to be additional; prioritising investments where there is an undersupply of private sector financing, and which have impact which is additional to what would be delivered by commercial markets alone.[6] The Bank will also provide an expert advisory service helping support local authorities with infrastructure projects.[7]

Launching at pace and corporate governance

5. The Treasury set-up the Bank as part of its response to the scale of the investment challenge facing the UK, particularly the pressing needs resulting from net zero .[8] The requirement for infrastructure investment is significant – the Infrastructure and Projects Authority estimates that the total infrastructure investment between 2021 and 2031 will be nearly £650 billion.[9] Alongside this, the UK lost access to funding for infrastructure from the European Investment Bank (EIB), with departure from the European Union in 2020 – in the four years to 2016, the EIB had provided £5 billion of financing in the UK,

1 C&AG's Report, The creation of the UK Infrastructure Bank, Session 2022–23, HC 71, 1 July 2022
2 C&AG's Report, paras 1, 5
3 C&AG's Report para 2
4 C&AG's Report, paras 2, 1.10
5 The Bank does not yet have powers to make loans directly to local authorities, which are instead made through the Public Works Loan Board in the first instance before being transferred over to the Bank. The government has introduced legislation to give the Bank these powers.
6 C&AG's Report, Figure 5
7 Correspondence from the Chief Executive Officer of the Infrastructure Bank to the Chair, 1 November 2022, C&AG's Report, para 1.9
8 Qq 70, 58
9 Q 1

much of which went to infrastructure investment.[10] The Treasury's planning stage for the Bank lasted only 10 months. This was 14 months shorter than equivalent planning stages for the Green Investment Bank (GIB) and the British Business Bank (BBB), despite the Treasury telling us that the Bank was three times the size of GIB and has a "slightly broader remit".[11] The Treasury told us that ministers decided to set-up the Bank at pace on the basis that: EIB financing was no longer available; there was a pressing need to deliver against government's net zero ambitions; and they wanted the Bank to be operating following the COVID-19 pandemic. Ministers also wanted the Bank to make some early deals.[12] While the Treasury acknowledged that setting up the Bank was "quite a pacy operation", it told us that it had already "done quite a lot of the thinking", drawing on past work such as the Treasury's Infrastructure Finance Review.[13]

6. Setting up the Bank at pace required the Treasury to cut important corners during the planning phase. It only carried out one business case, when its own guidance requires three to be completed. The Treasury acknowledged that this was "not best practice".[14] In addition, vital corporate governance arrangements were missing during the early stages of the Bank's operations. The Bank was launched with a permanent Chair who was the only external appointment at that stage. The Board itself comprised interim appointments, including two non-executive directors, both of which were drawn from within the Treasury group itself, and therefore not truly independent.[15] It took until June 2022 for the Bank to appoint its permanent non-executive directors. Without a full suite of non-executive directors, the Bank did not have an effective audit and risk committee, which meant it was not complying with the corporate governance code.[16]

7. The Treasury told us it took a "phased approach" to the Bank's set-up with "checks and balances in place" to ensure it would be delivering value for money to the taxpayer.[17] The Treasury seconded officials to key Bank posts, and initially had "very tight controls" over the Bank, including retaining the authority to sign-off all deals, which it exercised to approve several early low risk Bank deals. Six months after launch, once the Bank recruited the staff it needed, authority was largely transferred to the Bank except for deals above a certain size and any considered novel, contentious, and repercussive, which still require Treasury approval.[18] The Bank has now improved its corporate governance arrangements, with most executive positions now filled on a permanent basis and the non-executive directors are in post and independent.[19] The Bank told us that the decision to set-up at pace has proved to be beneficial. It announced six deals in its first full year of operation and told us it has now announced a total of 10 deals, of around £1.1 billion in value.[20]

10 Qq 13, 32, 36
11 Q 2; C&AG's Report para 5 para
12 Q 70 ; C&AG's Report para 2.3
13 Qq 3–4
14 Q 70
15 Q 69
16 Q 67
17 Qq 36, 69
18 Qq 4, 67, 70
19 Q 67; C&AG's Report paras 8 and 2.24
20 Q 31

Conditions for a long lasting and successful institution

8. The Treasury intends the Bank to be a "long-lasting institution" providing financing for infrastructure projects well into the future.[21] This label echoes the Green Investment Bank's status as an "enduring institution," which was subsequently sold to the private sector five years after its creation. In our 2017 report *The sale of the Green Investment Bank* we found that the term 'enduring institution' had little meaning in practice, and insufficient protections were put in place to prevent it from being sold.[22]

9. The Treasury provided the Bank with £22 billion in capital to cover the first five years of operation; beyond then, it expects the Bank to be self-financing. We asked whether this was a realistic target. The Bank told us it expects to be profitable within five years, with its income exceeding the £70 million to £80 million a year cost of running the Bank.[23] However, if the returns from current investments are needed to finance future deals, this would be "more challenging" to deliver within five years. The Bank told us that infrastructure financing is typically much longer dated that five years. When asked whether it would provide additional financing to the Bank after five years, the Treasury told us that if the Bank was additionally investing and meeting its targets,[24] When challenged on whether the Bank would be sold in the future if it proved to be profitable, the Treasury told us that profitability wouldn't be the only factor in any decision, and that the Bank's contributions to major government goals such as working towards net-zero, and putting the Bank in statutory legislation, would make it "more difficult to sell".[25]

10. The Bank's capacity to make complex and innovative deals is limited by the lack of suitably qualified staff members. The Bank has worked with Treasury to complete recruitment to key senior leadership positions that were not filled at launch. At the time we took evidence in early November 2022 the Bank had 162 employees, of which 16 are permanent, the remainder being contractors or Treasury secondees. This is a shortfall against the Bank's plan to recruit around 272 permanent employees by September 2023. The Bank reimburses interim staff at day rates. The Bank's Chief Executive said that recruiting permanent staff is his biggest leadership challenge. The Bank told us that while it has very good temporary staff, "every (permanent) role is competed for" on quality, which is adding time to the recruitment process.[26] The Bank added that it would "not compromise quality for speed" and wanted to wait for the right candidates.[27]

11. The Bank told us that, as a result of having insufficient skills and expertise, it has only entered into relatively low risk, more straightforward investment deals, as those are the only deal types it is comfortable delivering with the available staff.[28] It currently has a small banking team of 15 to 18 people which it will need to expand to around 70 before it is capable of delivering more complex, direct equity deals. It expects to start delivering

21 Q 82
22 Committee of Public Accounts, *The Sale of the Green Investment Bank*, Twenty-Fifth Report of Session 2017–19, HC 468, 14 March 2018
23 Qq 12, 21, 30
24 Qq 21, 22
25 Q 14
26 Q 74
27 Q 66
28 Qq 4, 24

direct equity deals within the first three months of 2023.[29] The Bank is still working to develop its own banking systems to support deals and IT systems, as it is currently reliant on Treasury systems for a range of functions.[30]

Performance measurement and evaluation

12. The costs associated with setting-up the Bank as a separate institution, such as procuring new IT systems, make it a more costly option than alternatives such as extending the remit of existing bodies.[31] The Bank told us it is working towards a "triple bottom line", consisting of its two policy objectives—helping to tackle climate change and aiding regional growth; alongside two financial objectives—generating a financial return and "crowding-in" additional private investment.[32] The Treasury set the Bank a target to earn an annual return on equity between 2.5% and 4% by 2025–26. It also told us that it has set the Bank a target to attract additional private finance of £18 billion.[33] The Bank told us that "to be additional every time we invest", that "additionality is a judgement" and that there are many ways the Bank can be additional. The Bank explained that it can be additional by filling financing gaps or taking risks, including policy risk, that the private sector is unwilling to accept. The Treasury told us that "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 told us that it "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", but that it has "not got there yet".[34]

13. The Bank told us it is currently developing several Key Performance Indicators (KPIs) to measure its success. For its two policy objectives, these include carbon emissions abated, jobs created and productivity. The Bank told us it expects to abate 2 million tonnes of CO2 and create or support 3,900 jobs from the 10 deals it has made so far. The Bank still does not have targets or other success criteria for these KPIs. The Bank has yet to establish ways of measuring its contribution to productivity.[35] The Bank added that it was developing other potential impact metrics and that these metrics will be reported, on an aggregate basis, in the Bank's annual report. The Bank has started to develop ways of measuring wider aspects of additionality, which will include providing a narrative for each transaction it does.[36]

14. The Bank recognises there could be tensions between its two policy objectives.[37] For example, there is a risk that a project could promote local growth but be harmful to the environment. The Bank told us that for any investment that is primarily focused on regional and economic growth, its needs to ensure the investment is not doing any significant harm against the net-zero objective. When questioned on how the Bank will assess this significant harm criteria, the Bank told us it would look on a case-by-case basis and assess "what significant harm is or is not".[38]

29 Qq 7, 54
30 Qq 6–7, C&AG's Report para 2.18
31 Q 11, C&AG's Report para 18
32 Qq 22, 25, 27
33 Qq 25–26
34 Qq 22, 42
35 Qq 27, 28
36 Q 27
37 C&AG's Report, para 14
38 Qq 58–60; C&AG's Report, paras 3.18 – 3.20

15. The Bank has developed arrangements for reporting performance and emerging issues to its shareholder (the Treasury), through the shareholder representative (UKGI). However, the Committee has seen other examples in government where similar arrangements apply and where things have gone wrong long before Parliament has received any warning.[39] In addition, neither the Treasury nor the Bank have plans to share UKGI reports more widely with Parliament. The Treasury confirmed the importance of notifying Parliament of an emerging problem, including where UKGI was involved. It acknowledged that there are areas where Managing Public Money rules apply but notifications to Parliament "are a bit patchier than we would like". Treasury told us that there is an "improvement process" going on, in relation to UKGI.[40]

39 Q 18
40 Qq 16–19

2 Building out the Bank's operations

Investment Strategy

16. The Bank was set up to address market failures and fill gaps in financing for infrastructure investment.[41] The Bank told us that it can do this by taking risk that the market is just not willing to take, for example in "first-of-a-kind" technology. It also told us that it can take policy risks in areas that the market might not be comfortable with, developing an understanding of the direction of policy and working to amplify interventions in those policy areas.[42] In general, equity investments are more suitable for higher-risk projects and are more complex transactions to undertake. In due course the Bank plans to build a portfolio of different financial instruments covering a range of different technologies and risk.[43] The Treasury has specified the five sectors it wants the Bank to prioritise – clean energy, transport, digital, water and waste.[44]

17. The Bank's 10 deals to date have mostly been in relatively conventional investments.[45] This total consists of seven loans and three equity investments made through funds rather than directly. The Treasury told us that the Bank was deliberately designed to start with "those less controversial things, less equity driven" as it builds up resources over time.[46] The Bank acknowledged that it is comfortable with senior debt transactions, but does not have the skillset and resource within the Bank to undertake direct equity investment.[47] It told us that it took the decision to deploy equity through qualified third-party managers, rather than not deploy any equity until it had the resource to do so. The Bank told us that this is a "technique that has been deployed successfully in Government before", for example through the Digital Infrastructure Investment Fund and Charge Infrastructure Investment Fund – both of which are now the responsibility of the Bank. The Bank expects such "outsourcing" to moderate over time as it develops the skills necessary to make direct investments, to the point where it will not outsource equity investment further.[48]

18. The Bank's 10 deals to date have focused on clean energy (five) and digital (four) projects.[49] These deals have generally been in areas of technology and risk where projects are relatively common, for example broadband and solar power farms.[50] The Treasury told us that 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".[51] The Bank told us it has a small banking team of 15 to 18 people and will need to increase this to around 70 people to cover the market and the investor base.[52]

41 Q 37
42 Q 42
43 Q 47
44 Q 10
45 Q 24
46 Q 36
47 Qq 24, 43
48 Q 43
49 Q 10
50 Correspondence from the Chief Executive Officer of the Infrastructure Bank to the Chair, 1 November 2022
51 Q 24
52 Q 7

The Bank's advisory function

19. The Bank's functions include providing an expert advisory service to help local authorities and other project sponsors to develop and finance infrastructure projects.[53] The Bank told us that establishing this service is not straightforward, compared to its local authority lending function which is already operational. The Bank has three advisory function pilot projects up and running with some larger local authorities—Manchester, West Yorkshire, and Bristol—covering zero emission buses and heat networks.[54]

20. The Bank told us that in developing the pilots, it wanted to try to understand and define problems that it thinks will be most common across the local authority landscape, such as financing heat networks, zero-emission buses and social housing retrofit projects. The Bank will then find the most capable local authorities already working on these problems and work with them to develop a proposition that it could then "replicate across other local authorities".[55] This approach has led the Bank to focus its three pilots on larger local authorities. We asked the Bank why it was not giving advice to smaller authorities. The Bank said it did not mean to suggest it was restricting access to the smaller authorities, but "the reality is that we do not and will not have the resource to cover them effectively". It told us that it has started with larger authorities because it thinks it will learn lessons there quickest, and the challenge for the Bank would be "to figure out how to get that to the smaller authorities in a way that is usable and useful to them."[56]

21. The Bank has not reached a decision on how it will fund its advisory function. Decisions on funding will be important given the Bank's expectation that demand will be significant, and that it will not have the resource to cover all requests effectively.[57] The Bank told us it has considered models for charging local authorities to use the advisory service but as things stand, it does not intend to charge directly. It told us this was because local authorities are already resource-constrained, and it is more likely that the Bank's interventions will be successful if it can help local authorities as "cheaply and efficiently" as possible. The Bank indicated that the revenue generated from its local authority lending will probably end up paying for the advisory function.[58]

Engagement with government departments

22. The activities and policy objectives of the Bank overlap with departments across government. For example, the Department for Levelling Up, Housing and Communities (DLUHC) has policy responsibilities in relation to local government and to regional and local economic growth.[59] The Treasury expects the Bank to set out how it intends to work with stakeholders, including policy departments across government, as part of the Framework Document setting out the formal arrangements between Treasury and the Bank.[60]

53 C&AG's Report para 1.9
54 Q 39
55 Q 41
56 Qq 41, 53
57 Q 53, C&AG's Report para 3.5
58 Qq 50–51
59 Q 91, C&AG's Report Figure 3
60 C&AG's Report para 3.7

23. We asked whether the Bank had mechanisms in place to manage pressures from competing government departments looking for the Bank to invest in their policy areas. The Bank told us that it is operationally independent to make its own decisions, with an Accounting Officer and a Board as part of that independence.[61] The Bank told us it has "very active discussions" with the Department for Business, Energy and Industrial Strategy because its portfolio overlaps with that of the Bank. The Bank also described working with DLUHC, the Department for Transport and the Department for Environment, Food and Rural Affairs (Defra). However, the Bank's Accounting Officer told us he had not yet established personal connections with DLUHC or Defra, 16 months into the Bank's operations.[62]

61 Q 92
62 Q 91

Formal minutes

Monday 16 January 2023

Members present:

Dame Meg Hillier

Dan Carden

Sir Geoffrey Clifton-Brown

Mr Jonathan Djanogly

Mrs Flick Drummond

Mr Mark Francois

Peter Grant

Anne Marie Morris

Jill Mortimer

Nick Smith

The Creation of the UK Infrastructure Bank

Draft Report (*The Creation of the UK Infrastructure Bank*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 23 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Thirty-fourth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Thursday 19 January at 9.30am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 7 November 2022

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 Q1–95

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

UKB numbers are generated by the evidence processing system and so may not be complete.

1 Association for Consultancy and Engineering (ACE) (UKB0001)

2 Institution of Civil Engineers (UKB0007)

3 Nuclear Industry Association (UKB0003)

4 Sustainable Aviation (UKB0006)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
1st	Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2020–21	HC 59
2nd	Lessons from implementing IR35 reforms	HC 60
3rd	The future of the Advanced Gas-cooled Reactors	HC 118
4th	Use of evaluation and modelling in government	HC 254
5th	Local economic growth	HC 252
6th	Department of Health and Social Care 2020–21 Annual Report and Accounts	HC 253
7th	Armoured Vehicles: the Ajax programme	HC 259
8th	Financial sustainability of the higher education sector in England	HC 257
9th	Child Maintenance	HC 255
10th	Restoration and Renewal of Parliament	HC 49
11th	The rollout of the COVID-19 vaccine programme in England	HC 258
12th	Management of PPE contracts	HC 260
13th	Secure training centres and secure schools	HC 30
14th	Investigation into the British Steel Pension Scheme	HC 251
15th	The Police Uplift Programme	HC 261
16th	Managing cross-border travel during the COVID-19 pandemic	HC 29
17th	Government's contracts with Randox Laboratories Ltd	HC 28
18th	Government actions to combat waste crime	HC 33
19th	Regulating after EU Exit	HC 32
20th	Whole of Government Accounts 2019–20	HC 31
21st	Transforming electronic monitoring services	HC 34
22nd	Tackling local air quality breaches	HC 37
23rd	Measuring and reporting public sector greenhouse gas emissions	HC 39
24th	Redevelopment of Defra's animal health infrastructure	HC 42
25th	Regulation of energy suppliers	HC 41
26th	The Department for Work and Pensions' Accounts 2021–22 – Fraud and error in the benefits system	HC 44
27th	Evaluating innovation projects in children's social care	HC 38

Number	Title	Reference
28th	Improving the Accounting Officer Assessment process	HC 43
29th	The Affordable Homes Programme since 2015	HC 684
30th	Developing workforce skills for a strong economy	HC 685
31st	Managing central government property	HC 48
32nd	Grassroots participation in sport and physical activity	HC 46
33rd	HMRC performance in 2021–22	HC 686
1st Special Report	Sixth Annual Report of the Chair of the Committee of Public Accounts	HC 50

Session 2021–22

Number	Title	Reference
1st	Low emission cars	HC 186
2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
7th	Adult Social Care Markets	HC 252
8th	COVID 19: Culture Recovery Fund	HC 340
9th	Fraud and Error	HC 253
10th	Overview of the English rail system	HC 170
11th	Local auditor reporting on local government in England	HC 171
12th	COVID 19: Cost Tracker Update	HC 173
13th	Initial lessons from the government's response to the COVID-19 pandemic	HC 175
14th	Windrush Compensation Scheme	HC 174
15th	DWP Employment support	HC 177
16th	Principles of effective regulation	HC 176
17th	High Speed 2: Progress at Summer 2021	HC 329
18th	Government's delivery through arm's-length bodies	HC 181
19th	Protecting consumers from unsafe products	HC 180
20th	Optimising the defence estate	HC 179
21st	School Funding	HC 183
22nd	Improving the performance of major defence equipment contracts	HC 185
23rd	Test and Trace update	HC 182
24th	Crossrail: A progress update	HC 184

Number	Title	Reference
25th	The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system	HC 633
26th	Lessons from Greensill Capital: accreditation to business support schemes	HC 169
27th	Green Homes Grant Voucher Scheme	HC 635
28th	Efficiency in government	HC 636
29th	The National Law Enforcement Data Programme	HC 638
30th	Challenges in implementing digital change	HC 637
31st	Environmental Land Management Scheme	HC 639
32nd	Delivering gigabitcapable broadband	HC 743
33rd	Underpayments of the State Pension	HC 654
34th	Local Government Finance System: Overview and Challenges	HC 646
35th	The pharmacy early payment and salary advance schemes in the NHS	HC 745
36th	EU Exit: UK Border post transition	HC 746
37th	HMRC Performance in 2020–21	HC 641
38th	COVID-19 cost tracker update	HC 640
39th	DWP Employment Support: Kickstart Scheme	HC 655
40th	Excess votes 2020–21: Serious Fraud Office	HC 1099
41st	Achieving Net Zero: Follow up	HC 642
42nd	Financial sustainability of schools in England	HC 650
43rd	Reducing the backlog in criminal courts	HC 643
44th	NHS backlogs and waiting times in England	HC 747
45th	Progress with trade negotiations	HC 993
46th	Government preparedness for the COVID-19 pandemic: lessons for government on risk	HC 952
47th	Academies Sector Annual Report and Accounts 2019/20	HC 994
48th	HMRC's management of tax debt	HC 953
49th	Regulation of private renting	HC 996
50th	Bounce Back Loans Scheme: Follow-up	HC 951
51st	Improving outcomes for women in the criminal justice system	HC 997
52nd	Ministry of Defence Equipment Plan 2021–31	HC 1164
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

Session 2019–21

Number	Title	Reference
1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687

Number	Title	Reference
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941