Thirty-Fourth Report of Session 2022-23

HM Treasury, UK Infrastructure Bank

The Creation of the UK Infrastructure Bank

Introduction from the Committee

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.

Based on a report by the National Audit Office, the Committee took evidence on 7 November 2022 from HM Treasury and the UK Infrastructure Bank. The Committee published its report on 25 January 2023. This is the government's response to the Committee's report.

Relevant reports

- NAO report: The Creation of the UK Infrastructure Bank – Session 2022-23 (HC 71)
- PAC report: The Creation of the UK Infrastructure Bank – Session 2022-23 (HC 45)

Government response to the Committee

1. PAC conclusion: The Treasury's decision to launch the Bank at pace had both positive and negative consequences.

1. PAC 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***

1.1 The government agrees with the Committee's recommendation**.**

Target implementation date: April 2023

1.2 HM Treasury will write to the Committee setting out the requested details by the end of April 2023.

1.3 The decision to establish the UK Infrastructure Bank (the Bank) at pace was prioritised to ensure that the institution could begin to deliver on its objectives as soon as possible, supporting investment in infrastructure throughout the UK and helping the government reach its net zero targets. The benefits of this approach are supported by the Bank's work to agree 12 deals in total, investing approximately £1.16 billion and unlocking more than £5.1 billion in private capital.

1.4 The policy design of the Bank was set out by the Treasury prior to its launch alongside the March 2021 Budget. As highlighted by the NAO's report, this design drew on experience with similar institutions such as the British Business Bank and the Green Investment Bank. The government introduced the UK Infrastructure Bank Bill in May 2022 to support UKIB's future a long-lasting institution driving infrastructure investments towards projects that help tackle climate change and support regional and local economic growth across the UK.

1.5 Prior to opening the UKIB for business, the Treasury ensured clear governance procedures were in place including an agreed Framework Document and appointment of interim Board, with permanent Chair in post. After UKIB launched in interim form, the Treasury maintained close oversight as UKIB started to grow its operations. This included retaining delegated authorities on UKIB's behalf until a permanent Chief Executive was in post and able to be appointed as Accounting Officer. This ensured appropriate protections were in place that were tailored to UKIB's activities.

1.6 HM Treasury also agreed a Financial Framework with UKIB ahead of delegating authority to the UKIB CEO for investment decisions. This came into effect in January 2022 and gave the Board and Executive Team discretion over the day-to-day operations of the Bank, including delegated authority to make investment decisions independently of government. As is the case for any government ALB and sponsor department, the Bank must report on its performance to its shareholder including submitting an annual business plan to the Treasury for approval, including details of their operations, financial performance, and key performance indicators. The Bank's business plan, and the planned Strategic Review will allow the Treasury to assess how these arrangements are working in practice.

1.7 The role of UK Government Investments (UKGI) is to act as the Treasury's Shareholder Representative on the UKIB Board. UKGI have extensive experience in corporate governance and manage a portfolio of 23 government businesses UKGI are managed independently but are wholly owned by HM Treasury. The Treasury are responsible for oversight of UKGI and reporting on their performance to Parliament.

2. PAC conclusion: 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.

2. PAC 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'.***

2.1 The government agrees with the Committee's recommendation

Target implementation date: March 2024

2.2 The final phase of the Bank's roll-out will take place during 2023-24 – following the anticipated date of Royal Assent for the UKIB Bill and while the Bank completes its recruitment of its permanent workforce. The Bank will therefore provide the requested information to Parliament by the end of September 2023 and in March 2024 in addition to the information on the Bank's operations which is already provided to Parliament through the Annual Reports and Accounts (ARA) process. After March 2024, the Bank will provide this information through the ARA process only.

2.3 The Treasury has set out its expectations of the Bank through the Framework Document and the Strategic Steer which cover the principles underpinning the relationship between the two institutions, and sets out clearly the government's expectations around the Bank's priorities. These documents are publicly available to ensure transparency. Following the passage of the UK Infrastructure Bank Bill through Parliament, the Treasury will update the Framework Document and Strategic Steer to ensure that they reflect the new statutory footing for the Bank.

2.4 The Treasury and the Bank will continue to work closely together over the coming years to ensure that as the Bank becomes more established, the targets and objectives of the Bank reflect its operations and capacity. To aid with this, as set out in the policy design document, the government intends to carry out a Strategic Review of the Bank "in which the Bank's progress and financial performance will be reviewed by government, including considering market demand and pipeline, with a view to ensuring it has sufficient resource". This is in addition to an independent review of UKIB's effectiveness and impact which is included within the UKIB Bill.

3. PAC conclusion: We are not convinced the Bank has a strategic view of where it best needs to target its investments.

3. PAC 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.

3.1 The government agrees with the Committee's recommendation

Target implementation date: Summer 2023

3.2 The Bank has worked closely with the Treasury to ensure there is a clear strategic outlook in its first 18 months and beyond, and to this end the Bank has already published its first strategic plan in June 2022. The plan clearly sets out the Bank's investment strategy, including its priority areas for investment and the range of investments that it expects to make. It is right that as parts of its operations the Bank assesses market needs and reviews deals against its objectives – and is already doing so successfully. The Bank has already made 12 deals worth £1.16 billion across a range of priority sectors and have further deals in the pipeline. The Bank's role is to crowd-in private investment, and therefore the Bank's proactive investment strategy needs to carefully consider this.

3.3 The Bank plans to publish a further update to its Strategic Plan (which includes its investment strategy) in the summer of 2023 and will send this to the Committee when it does so.

4. PAC conclusion: 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.

4. PAC 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.

4.1 The government agrees with the Committee's recommendation

Target implementation date: Spring 2023

4.2 The Bank welcomes the Committee's recommendation and would be pleased to provide the requested information later in Spring 2023 after completion of the pilot projects in Bristol, Greater Manchester, and West Yorkshire Combined Authority. These pilots play an important role in helping the Bank develop its offering for local authorities, a key part of the Bank's remit, and ensures that its support is appropriately reflective of local authority needs.

4.3 The Bank will share the key insights developed through the pilots and its engagement with a range of local authorities to date. It is already engaged with a range of local authorities for its next wave of advisory work, to be announced shortly. Recognising that the needs of different size local authorities will vary, the Bank has carefully considered how it can deliver effectively across this spectrum. For instance, it already offers advisory support to smaller local authorities through its partnership with the Green Heat Network fund and plans to continue this model with future grant programmes. This will allow government to leverage investment in local infrastructure and ensure that projects are set up for success.

5. PAC conclusion: 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.

5. PAC 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.

5.1 The government agrees with the Committee's recommendation

Target implementation date: March 2023

5.2 The Bank welcomes the Committee's recommendation. Understanding the government's strategic priorities for net zero and regional and economic growth is key to delivering the Bank's mandate, so deepening engagement with government departments is an important priority.

5.3 A lead point of contact within the Bank has been assigned for departments that are most critical to delivering our mission, each of whom has regular engagement with their department to understand the government's strategic priorities and help originate and assess investment opportunities.

5.4 This is supported by regular engagement between the Bank and senior government officials as needed. The Bank has met with senior officials in the Department for Environment Food and Rural Affairs, the Department for Levelling up Housing and Communities, the Department for Transport and Department for Business, Energy and Industry Strategy (BEIS). For example, prior to the restructuring of departments, UKIB had regular strategic engagement with the Permanent Secretary of BEIS and an agreed joint workplan on key sectors. In December, UKIB announced a new partnership with BEIS which enables local authorities applying to the government's Green Heat Network Fund (GHNF) to access lending from the UKIB at preferential rates on the basis of the same application information submitted to the GHNF grant funding scheme.

5.5 The Bank is now in the process of engaging with the new departments as announced on 7 February 2023, to continue to build on the relationships that the Bank had established with the same teams in the predecessor departments. The Bank is also in the process of engaging further the Department for Business and Trade and the Department for Levelling Up, Housing and Communities.

6. PAC conclusion: 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.

6. PAC 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.

6.1 The government agrees with the Committee's recommendation

Target implementation date: March 2024

6.2 From the outset, the Bank has had a clear set of metrics related to its performance, that reflected its position as a growing organisation. The Bank has already reported on this initial set of metrics in its Strategic Plan and in its first Annual Report and Accounts. The Bank will work with the Treasury and UKGI to ensure that future metrics are clear and stretching to ensure the Bank continues to deliver against its strategic objectives, and across its remit. These metrics and targets are developed annually and approved by the Board of Directors as well as Treasury ministers.

6.3 The Bank and the Treasury recognise the importance of transparency around how the Bank's performance is assessed, which is why key documents such as the Strategic Plan are published. In addition, both the Bank's and the Treasury's Annual Reports and Accounts are laid in Parliament and cover the full suite of operations and performance.

6.4 On additionality, the Bank has already published guidance in October 2022 on how it assesses additionality, and it expects to publish a further document setting out its Impact Framework in the summer of 2023. This will cover both metrics and the Bank's plan for evaluation.