HM Treasury

James Bowler
Permanent Secretary
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

020 7270 5158
James.Bowler@hmtreasury.gov.uk
www.gov.uk/hm-treasury

Dame Meg Hillier
Chair of the Public Accounts Committee
House of Commons London
SW1A 0AA

By email

30 April 2023

Dear Dame Meg,

Follow-up: The Creation of the UK Infrastructure Bank, Thirty-Fourth Report of Session 2022-23

As part of your inquiry into the Creation of the UK Infrastructure Bank, you requested that HM Treasury write to you setting out further detail in relation to four recommendations made in recommendation 1 of your report. I am pleased to enclose our responses below.

1. **Setting out the long-term plans for the institution, including when reviews will be made and by whom;**

The government is committed to the Bank being a long-lasting and impactful organisation which will promote local and regional growth and support the government's Net Zero ambitions. In order to ensure this is the case, the government has placed the Bank on a statutory footing through the UK Infrastructure Bank Act (UKIB Act). The Bank is capitalised with £22bn which it can deploy through a number of products, including equity, debt and guarantees, and this scale of capitalisation will enable the Bank to make a significant difference in infrastructure markets in the UK.

The government will review the Bank's progress and financial performance to ensure that it is succeeding against its objectives, including assessing if it has sufficient capital to deliver its ambitions, through a Strategic Review in Spring 2024, as set out in the Policy Design Document. The government will set out further details of this review in due course.

As set out in the UKIB Act, there will also be a further, independent review within seven years after the Act received Royal Assent which will consider the effectiveness of the Bank in delivering its objectives, and its impact in relation to climate change and regional and local economic growth (including the extent to which its investments in particular projects or types of project have encouraged additional investment in those projects or types of project by the private sector). The outcomes of this report will be laid before Parliament.

2. **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;**

   The Bank is an arms-length body (ALB) sponsored by HM Treasury. Governance arrangements between the Bank and HM Treasury are set out in the publicly available [Framework Document](), which details the respective roles and responsibilities of the Bank, HM Treasury and HMT's Shareholder Representative – UK Government Investments (UKGI). Following the passing of the UKIB Act, the Framework Document is under review and a revised version will be published by the summer.

   UKGI is a company wholly owned by HM Treasury and functions as the government's centre of expertise for corporate governance and corporate finance. In its corporate governance role, UKGI supports HMG's effective ownership of its ALBs including, in this case, HM Treasury's ownership of UKIB. Over the last year some of the key ways UKGI has supported HM Treasury as shareholder and sponsor of the Bank include establishing regular monitoring and reporting through Quarterly Shareholder Meetings and playing a key role in the preparation and execution of UKIB's financial framework and other related set-up aspects. UKIB remains accountable to HM Treasury Ministers and, through the Chancellor, to Parliament.

   HM Treasury is comfortable that the governance arrangements in place, including the role of UKGI as Shareholder Representative, are appropriate and working well at this stage. Future reviews of the Bank will consider the governance framework and its effectiveness in supporting UKIB's ability to deliver its objectives.

3. **Setting out criteria for assessing whether operational independence for the Bank is working as intended, and for reviewing based on those criteria**

   The Bank has been established as a limited company, registered at Companies House, and has an experienced Board led by an independent Chair and with a number of suitably qualified independent Non-Executive Directors (NEDs). HM Treasury has given the Bank delegated authority to make investment decisions in line with the Bank's strategic objectives.

   As set out in the Framework document, HM Treasury has set Strategic Objectives for the Bank to govern its overall mission and how it invests, but HM Treasury has committed to giving the board of the Bank freedom to operate the Bank in seeking to achieve these objectives. This includes operational independence to identify, design and deliver specific interventions, or any category of interventions, based on its own assessment of how to achieve its Strategic Plan.

   HM Treasury will maintain oversight of the Bank's operations and performance to ensure compliance with relevant rules, and to ensure that HMT is able to deliver on its obligations regarding financial management and Parliamentary reporting by Ministers.

   Given the complex nature of the Bank's operation, HM Treasury does not intend to set out specific criteria to assess operational independence, but the Strategic Review and

Statutory Review as set out above present opportunities to review working arrangements and ensure they are working efficiently.

4. **Identifying lessons learned from setting up at pace and whether this was the best way to launch an organisation of this type**

The government chose to launch the Bank at speed to ensure that it could rapidly get underway with its important objectives of funding infrastructure that will help meet net zero and support regional and local economic growth. This decision to expedite the Bank's set up is already delivering results for the UK economy, as demonstrated by the 15 deals worth £1.4bn that the Bank has already announced.

Setting up a new public body will always present unique challenges, but HM Treasury ensured that lessons learned from setting up similar organisations such as the British Business Bank and the Green Investment Bank were taken into account to make the launch of UKIB a success. HM Treasury also took a phased approach to the launch, including maintaining scrutiny of initial deals to make sure that taxpayer funds were sufficiently protected whilst the Bank became more established and developed its own risk processes.

In addition, HM Treasury carried out a lessons learned exercise after the initial launch and ahead of the second phase of establishing the Bank. This exercise consulted with senior stakeholders across HM Treasury, the Bank, UKGI and the Infrastructure and Projects Authority. This process considered whether there were appropriate governance processes in place to manage the ongoing processes after launch, and to make sure that risks were properly assessed. It found that the expedited process had allowed decisions to be taken efficiently, and critical areas for launch were appropriately prioritised in the process. Stakeholders felt that HM Treasury had drawn on appropriate expertise and prior experience to make the launch a success.

However, as was anticipated at the time, the lessons learned exercise confirmed that there were further issues that required resolution post-launch, such as finalising certain aspects of UKIB's staff offering. The lessons learned exercise allowed HMT and the Bank to prioritise workstreams effectively following the launch to ensure the Bank's processes in these areas were stood up as quickly as possible. There was also lessons for HM Treasury to ensure that senior responsible officers retained appropriate levels of oversight as the Bank expanded, and following this exercise HM Treasury revamped its governance arrangements to better reflect the post-launch phase.

HMT will continue to reflect on the lessons from establishing the Bank and will ensure that these lessons are applied where relevant to other policy areas and ALBs. We will of course respond in full to the PAC report into the Bank as part of learning those lessons in our Treasury Minute.

I look forward to continuing to engage with your Committee on these issues.

James Bowler

Permanent Secretary