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25 October 2023

Dear Dame Meg Hillier MP

UK Infrastructure Annual Report and Accounts and general update

As promised in my letter to you of 26 June 2023, I write to update on developments at the Bank as we publish our Annual report and accounts 2022-23 | UK Infrastructure Bank (ukib.org.uk)

For ease of reference, I have divided the updates into five headings – investments, recruitment, local authority function, operations and strategy update. I have included information for the 2022/23 year, as detailed in our Annual Report, and as of the end of September, where there is a relevant update.

Investments

The Bank continues to make good progress on our investments and building our balance sheet, and we are where we would expect to be at this point in our maturity. We signed eight new deals in 2022/23, which spanned the clean energy, digital and water sectors, while simultaneously building our Banking and Investments team – it stood at 36 staff at the end of the financial year. These deals represented a total commitment of £1,105 million during the year.

Since the end of the 2022-23 financial year, and with the build of our Banking and Investments team now nearing completion, we have closed investments totalling £464m, spanning a range sectors, including natural capital, clean energy, transport and digital. This means, in total, the Bank has now made investments of nearly £1.9bn, with more than £9.6bn of private finance mobilised – a multiple of 5:1. Alongside this, we calculate that our investments have to date created or supported 5,700 jobs. We expect the pace of our investments to increase further in the second half of 2023/24.

We are also now resourced to undertake deals of greater complexity and, as an example, we completed our first direct equity deal in August 2023 – approximately £24 million in Cornish Lithium Plc to support a first-of-a-kind lithium extraction and exploration project, helping establish an upstream supply chain for battery production. We anticipate completing further equity transactions in the near future.

Recruitment

The Bank continues to build, and our goal remains to be fully staffed by Spring 2024. As of 31 March 2023, the Bank's staffing stood at 194 FTE – a headcount of 198. We have made further progress since the close of the financial year, and at the end of September 2023 we had 240 people working for the Bank, with 155 of these being permanent employees. At that point we had signed contracts with a further 20 individuals, who will start with the Bank in the near future, taking our permanent headcount to 175. Of these 175 people, 97% will work from our Leeds HQ; only five staff are London-based. We have prioritised recruitment to our front office Banking team and, as a result, are now resourced to operate across the entire breadth of our product offer. We are also in the process of recruiting dedicated Director-level roles in each of Belfast, Cardiff and Edinburgh, who will undertake business development and pipeline creation in the relevant nation, helping us ensure we are delivering on our mission to serve the whole of the UK.

Local authority function

In July 2023 we announced further senior appointments in our local authority function - which provides advisory services and lending - including the arrival of our Local Authority Managing Director.

The function has continued to engage widely across the sector, completing advisory projects in all four of the UK's nations, with nine advisory engagements undertaken so far this year, and expects to deliver at least a further 11 by the end of financial year 2023/24. These engagements cover a range of areas, including transport projects, heat networks, building decarbonisation and mixed regeneration, in line with our recently published strategy (see final heading below). Our advisory service is supporting a wide range of authorities, including a Scottish islands-based council, an English rural county council and a smaller unitary. We consistently look for replicability across our engagements and, to this end, have partnered with local government funds for green heat networks and electrical vehicle infrastructure to give local authorities applying to these schemes easy access to our preferential lending rates. We are also supporting other grant programmes, such as the Public Sector Decarbonisation Scheme and the Zero Emission Bus Regional Allocation's second funding round.

Operations

Since year-end, we have completed the migration off all key HM Treasury systems and processes and are consequently operationally independent. Key milestones in this process include the **go-live** of the first phase of Workday as a back-office HR and Finance system in August 2023, with minimal disruption, on time and on budget, and the deployment of Atamis for Procurement. We continue to build out our operational infrastructure and operate a cloud-first approach based on a Microsoft architecture which allows flexibility and scalability. This framework forms the basis of our work to deploy a strategic banking system, the relationship management module of which has recently gone live. We expect to complete the procurement process for the strategic banking system in advance of March 2024, in line with the target agreed with our Board, with implementation phases being deployed over the 2024/25 financial year. This will replace our tactical loan management system, which is currently in place to support deals.

Strategy update

In addition to the Annual Report and Accounts, the Bank recently published a strategy update, setting out how we are using our private sector investments and local authority advisory and lending function to solve financing problems related to net zero and local and regional growth.

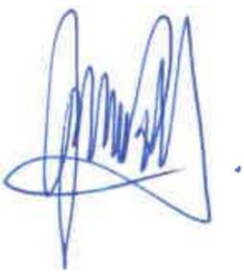
As part of this, we have set out seven key areas in which we see opportunities to tackle problems in the next 12 to 24 months. All are significant to the net zero transition and can support local growth and deliver on our triple bottom line. For each of these areas, we have published a separate document setting out our current view of the market, the problems we want to solve, and how we can use our financial and advisory products to help address barriers to investment, working with market participants, government, and local authorities. These areas are: short duration energy storage, hydrogen, carbon capture, usage and storage (CCUS), EV charging, zero emission buses, heat networks and port infrastructure for floating offshore wind.

Beyond these areas, we remain committed to investing across the infrastructure landscape in line with our mandate, and our banking and local authority teams are organised around the full breadth of our five priority sectors – clean energy, transport, digital, water and waste - as well as nature-based solutions and critical supply chains. We will also take account of HM Treasury's Statement of Strategic Priorities, published last month, which highlighted a role for the Bank in supporting semiconductor manufacturing to help accelerate the UK's domestic capabilities in this area, while reducing the carbon intensity of their manufacturing.

I hope you find this update helpful.

I am copying this to James Bowler at HM Treasury.

Yours sincerely,



John M Flint

Chief Executive Officer