

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

By Email

26 June 2023

Dear Dame Meg Hillier MP,

**Follow-up: Treasury Minute response – The Creation of the UK Infrastructure Bank**

In its Minute responding to your report into the creation of the UK Infrastructure Bank, HM Treasury said that the Bank would write to update you on a number of subjects. This letter does that, covering the response to: (i) Recommendation 2 with the first of the promised updates on the ongoing development of the Bank; (ii) Recommendation 4 on the completion of our initial local authority advisory pilots and our future plans for that service; and (iii) Recommendation 6 on the Bank's approach to performance monitoring and evaluation, and how these will be publicly reported.

Your report also asked the Bank to write on our investment strategy. I know you have raised this recently in correspondence with James Bowler. As he said in his response to you, I will write to you again in September, with an update on that investment strategy, giving more detail on how we expect to build our balance sheet while responding flexibly, in line with our mandate, to the realities of market needs as they change over time.

**Recommendation 2: Progress Update**

We continue to make good progress on our recruitment. At the end of May 2023, we have 207 people working for the bank, with 90 permanent employees. We have signed contracts with a further 32 individuals, who will start with the bank in the near future to take our permanent headcount to 122 staff. Of those 122, the vast majority will work from our Leeds HQ. Only four of these contracts are London based. We continue to recruit at pace and remain on-track to reach our full complement by the end of the current financial year.

We also continue to make good progress with the build of our systems. We signed contracts with Workday to provide our Enterprise Resource Planning system in November 2022 – to allow us to move away from HM Treasury's system. We are now in the process of implementing that transition, with the first phase of that implementation on track to be delivered over the summer. Alongside that, we appointed Deloitte in April 2023 to work with

us to identify and potentially develop a long-term solution for our banking platform. In the meantime, we continue to operate from the interim loan book system which we developed through 2022.

And we continue to make investments and to build our balance sheet. We have now announced 17 deals in total. These transactions represent investment of approximately £1.55bn and unlock over £6.2 billion in private capital, with an estimated 5,400 jobs created and supported. Our investments are concentrated on the sectors that HM Treasury has asked us to focus on in our Framework Document and also include our first nature-based investment, consistent with the strategic steer I received from the Chancellor last year.

In line with your request for 6 monthly updates, I will write again to update you further on the Bank's development in the autumn when we release our Annual Report and Accounts.

#### **Recommendation 4: Local Authority Advisory Function**

In September 2022, the Bank announced the launch of its Local Authority advisory function with three pilot engagements. These were:

- Transport for Greater Manchester, to support on its Zero Emission Bus implementation through its franchising process;
- West Yorkshire Combined Authority, to support on mass transit funding considerations; and
- Bristol City Council, following the launch of the Bristol City Leap Energy Partnership joint venture, which seeks to bring forward low carbon economic infrastructure in the city.

These pilots helped inform the Bank of the challenges Local Authorities face in bringing forward Net Zero and regional-and-local growth-supporting infrastructure. We observed how internal resourcing constraints limit capacity to incubate and deliver projects, as well as challenges introducing new technology, in particular its introduction alongside existing infrastructure. We also observed the importance of effectively partnering with the private sector to deliver scale solutions. Feedback from the pilots has been very positive, with each authority keen to work with the Bank on further engagements.

The Bank communicated in its 2022 Strategic Plan the ambition to maximise the effectiveness of the advisory function by supporting a wide range of authorities. The three pilots deliberately focused on supporting ambitious and innovative projects where there was potential to develop replicable principles which could be disseminated across a broader range of authorities.

The Advisory function has now moved into the operational phase and is available to access by authorities across the UK. The focus of the function is to provide support for priority projects as authorities develop their commercial, and financial options, along with other funding considerations.

Since completion of the pilots, we have undertaken an additional 10 projects across all four nations, including working with Perth and Kinross Council on a regeneration scheme, with Transport for Wales in relation to Zero Emission Buses and with Leeds City Council on energy efficiency measures. This aligns with the Bank's steps on the Local Authority lending front, to partner with Government infrastructure grant schemes and to provide support to those projects, particularly those undertaken by smaller authorities.

With the pipeline of engagements now materially increasing, the Bank is implementing a project selection approach. Whilst selection will ultimately be made at the Bank's discretion, this will be informed by the ability of projects to align with the Bank's mandate, the likelihood of projects being successfully brought forward and the ability of the Bank to make a materially positive contribution to the intended outcomes. The Bank will also look to the level of ambition of a project and whether it potentially offers innovative solutions for other authorities.

The Committee requested, in particular, that the Bank outline how it will ensure smaller local authorities are not left behind. Although the Bank's mandate, as set in our Framework Document, is to support large and complex infrastructure projects, we have designed our lending and advisory offers with all sizes of authority in mind. We review the pipeline regularly in relation to the location and type of authorities supported and our current lending and advisory pipeline includes several projects with smaller unitary authorities as well as second-tier district authorities.

Recognising that smaller authorities can sometimes have more limited capacity to engage with us, we use a range of communication channels to highlight our offer and learnings to the full range of authorities across the UK. We seek to minimise burdens on authorities in project selection and diligence by, for example, developing partnerships with Government grant schemes to allow information sharing and to reduce the administrative burden on local authorities when applying for a loan from the Bank. This should benefit all local authorities, but we expect it to be of particular benefit to smaller authorities with fewer resources.

The Bank is also keen that local authorities are not, at this stage, precluded from accessing our advice due to funding constraints. The advisory function therefore remains free to access. Again, this should be of particular benefit to smaller authorities with fewer resources. We do though keep this approach under review, together with HM Treasury as our shareholder, and will continue to consider our approach as the Bank and advisory function and demand for the service matures, while remaining conscious of the financial landscape in the local authority sector.

## **Recommendation 6: Performance Metrics and Evaluation**

The Committee requested that the Bank write to it by March 2024 detailing how it has implemented a full suite of performance metrics and targets including productivity and green performance, as well as a forward plan for evaluation that includes additionality assessments. The Committee also asked the Bank to outline how it will publicly report its performance and the results of its evaluation over time.

We operate to a triple bottom line, which means that our investments must achieve one or both of our strategic objectives, generate a positive financial return, and demonstrate additionality – focusing where there is an undersupply of private sector financing and reducing barriers to investment – and thereby crowding-in private capital. Consistent with this, we implemented an initial impact framework from early in the Bank’s existence – built around four outcome-based metrics which we have used consistently to capture the impact of deals. As set out in our Annual Report and Accounts for 2021/22 and in our Strategic Plan in summer 2021, these four initial metrics covered carbon emissions, employment, productivity and private finance mobilised. And, of course, we monitor a full range of financial metrics too, covering, for example, the return we expect to make from our investments and our progress towards our longer-term return-on-equity target.

Further to this, we produced a document in October 2022, setting out in detail the approach we take to assessing additionality on our investments. This is available on our website. And we have now developed our thinking further on impact, publishing on 17<sup>th</sup> May 2023 our full Impact Framework<sup>1</sup>, including a wider suite of non-financial metrics<sup>2</sup> and a high-level plan for evaluating our impact through to 2030. Alongside this, we also published our Environmental, Social, Resilience and Governance Framework<sup>3</sup>, which sets out how we manage any materially important ESG risks and opportunities in our portfolio.

The Impact Framework specifies six core deal metrics, which – in addition to our financial metrics – will be assessed for each of the Bank’s deals. These are:

- **Direct private co-investment** at the point of investment
- **Further private co-investment in projects** supported by the Bank
- **Sector specific-capacity increases** associated with the Bank’s investments (e.g. Megawatt Hours for clean energy investments)
- **Relative Greenhouse Gas Emissions** – which is the impact of the Bank’s investments compared to a suitable counterfactual
- **Direct employment** impact – including both permanent and temporary jobs created/support through the Bank’s investments
- **Wage premium** for the jobs our investments create/support – which we are using to proxy productivity

In addition to these six core metrics, we will also look, when relevant and on a case-by-case basis, at a wider range of additional metrics for tracking progress and evaluating impact across the Bank’s portfolio of investments. These are also detailed in the links footnoted below. Together, these metrics are designed to allow the Bank to assess its contribution to both regional and local economic growth and the transition to net zero. We also, of course, look at

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<sup>1</sup> <https://www.ukib.org.uk/sites/default/files/2023-05/UKIB-Impact-Framework.pdf>

<sup>2</sup> <https://www.ukib.org.uk/sites/default/files/2023-05/Metrics-table.pdf>

<sup>3</sup> <https://www.ukib.org.uk/esrg-framework-2023>

a full range of financial metrics – in line with the need to ensure that our individual investments generate a positive expected financial return and to ensure we make the necessary progress towards our longer term return-on-equity target

The Impact Framework also explains that the Bank will conduct an interim evaluation this financial year and a full impact evaluation by FY2027/28. Both the interim and full impact evaluation will be commissioned to an external third party and we will be transparent on the conclusions of these reports. In addition, our Annual Reports and Accounts will include a comprehensive analysis of the Bank's portfolio and we are also already publishing fact sheets for every deal completed. These give our view of the impact we expect to make through our individual investments.

I am copying this to James Bowler at HM Treasury.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'John Flint', with a stylized, cursive script.

John Flint  
Chief Executive Officer