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Dame Meg Hillier
Chair of the Public Accounts Committee
House of Commons London
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By email

16 June 2023

Dear Dame Meg,

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

Thank you for your letter on 19 May regarding the Treasury Minute response to the Public Accounts Committee inquiry report on The Creation of the UK Infrastructure Bank (UKIB).

Your letter sought more detail relating to three of the Committee's recommendations:

Recommendation 2: 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 on 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'.

In regard to the roll-out of the Bank, your letter of 19th May states that the Committee is concerned with Treasury's commitment to only provide six-monthly updates on progress until March 2024. To clarify, we fully accept recommendation 2. The government's expectation is that the Bank's roll-out, including on recruitment and procurement of operational systems, will be complete by March 2024, and therefore we anticipate that the Committee's request will be met by this date. HM Treasury will set out the key milestones by which progress to full roll-out will be assessed in the next update due in autumn and keep progress against these under review in future updates. If not met by March 2024 we will continue to update the Committee on a six-monthly basis until roll-out is complete in line with the recommendation.

You asked for further detail about the government's definition of 'long-lasting institution' and plans on long-term ownership. The March 2021 'UK Infrastructure Bank: Policy Design' publication outlined the government's ambition for UKIB to be both an ambitious and long-lasting institution. This included the specific intention that "*the UKIB will remain as part of the public sector, owned by the government, fulfilling its role in supporting investment, permanently*". One of the UKIB's core operating principles is to focus on providing long-term patient capital through its investments. The government also placed the UKIB on a statutory footing through the UKIB Act to reinforce its status as a lasting arm's length institution. It is not possible for this government to bind the hands of a future government in regard to the Bank, but the government has taken the steps within its power to set the Bank up for long term success.

The government has set out its expectations and has publicly defined objectives for the UKIB by: (i) setting a clear policy mandate which is now established in legislation; (ii) defining operating principles, including reporting, within the UKIB's Framework Document; and (iii) providing a Strategic Steer to UKIB outlining further details on the government's priorities for the institution. As noted in the Treasury Minute response, the Treasury will update this Strategic Steer following the passage of the UKIB Act.

You also asked for further detail on plans for taking dividends. As the NAO report noted, the government has specified a target for annual financial performance (return on equity) for the Bank, of 2.5% to 4% before tax by the end of 2025/26. The government intends for UKIB to retain income it generates for the purposes of fully funding itself and recycling profits into new investment, subject to a threshold on retained profits set by the Treasury. This is similar to the process set out in the British Business Bank's Framework Document which permits them to re-invest profits from their commercial activities.

The UKIB's Framework Document outlines the expectation that the mechanics of the retaining profit process will be agreed in writing. When UKIB is making profits, agreement on reinvestment of profits and dividends will be delivered as part of approval of the UKIB's annual Business Plan. We will notify the Committee as and when this process has taken place.

Recommendation 3: 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.

Your 19 May letter references how the UKIB's Strategic Plan was published ahead of the Committee's evidence session and does not itself identify a range of investments where UKIB plans to invest.

The emphasis on the UKIB's Strategic Plan within the Treasury Minute response was to illustrate how the UKIB have communicated their broad approach to building the Bank's capability, capacity and balance sheet to solve problems the private markets cannot solve on their own. The Strategic Plan identified the subsectors where financing problems could emerge over the short to medium-term.

While UKIB has a strategic view of where they will invest, the need to be additional is key. UKIB's investments will be shaped by how and where financing problems emerge in pursuit of their climate change and regional growth objectives.

The Treasury Minute response dated 30 March confirmed a target response date by Summer 2023 for the UKIB to share their investment strategy. I have asked the UKIB to respond to the Committee's request by September, including providing detail on the UKIB's sectoral investment approach as they build the balance sheet to solve problems.

Recommendation 6: By March 2024 the Bank should write to the Committee 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.

As you note in your 19 May letter, the Treasury Minute response indicated that the UKIB was launched with clear metrics related to its performance. These were developed to be proportionate to the UKIB's investment capability, with the expectation that as the UKIB capacity and activity expanded, the UKIB would develop and refine further detailed metrics to assess the impact of deals when making investment decisions. This approach was in line with the ambition for the UKIB to operate with a high degree of operational independence.

I am pleased to share that the UKIB continues to make progress on this area as it builds its portfolio of investments. Since the Treasury Minute response was shared in March, the UKIB has now published its Impact Framework and ESRG framework. This specifies six core deal metrics:

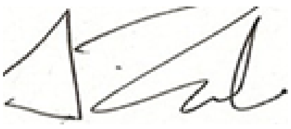
- Direct private co-investment
- Further private co-investment in projects
- Sector specific-capacity increases
- Relative Greenhouse Gas Emissions
- Direct employment
- Wage premium

Alongside this letter the UKIB are also writing to the Committee to provide information on these publications.

In relation to your 19 May letter regarding how the Bank will measure its progress on productivity and green performance, these Frameworks include explanations on the UKIB's approach to estimating greenhouse gas emissions and wage premia to analyse potential productivity gains of investments. The UKIB will continue to develop and iterate these metrics, publishing performance against organisational targets in annual report and accounts.

I hope the detail above provides clarification to your additional questions. I look forward to continuing to engage with your Committee on these issues.

In parallel to this letter, as noted above, you are also receiving an update from UKIB in response to the Committee's recommendations on progress updates (recommendation 2); local authority advisory pilots (recommendation 4); and performance metrics (recommendation 6).



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Permanent Secretary