The creation of the UK Infrastructure Bank

HM Treasury, UK Infrastructure Bank

REPORT

by the Comptroller and Auditor General

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National Audit Office

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HM Treasury, UK Infrastructure Bank

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

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Key facts

£22bn

total capital available for the UK Infrastructure Bank (the Bank) to make investments and issue guarantees

June 2021

Bank "Open for business"

5

number of deals made by the Bank to May 2022

£650 billion	the National Infrastructure and Construction Pipeline projection of expenditure on new projects between 2021 and 2031
£5 billion	European Investment Bank financing in the UK exceeded this level in each of the four years to 2016
14 months	an estimate of how much shorter the planning time was for the Bank's launch, compared with the Green Investment Bank and the British Business Bank
44	number of deals in the Bank's investment pipeline at April 2022
2.5% – 4%	the annual financial rate of return that HM Treasury has set for the Bank to be achieved by the end of 2025-26
272	the number of permanent staff the Bank plans to recruit by September 2023, from a base of eight in April 2022

Summary

1 Good quality infrastructure is essential to deliver services across a range of sectors. Investment is vital to building and maintaining infrastructure; it is also essential where infrastructure needs change, for example to achieve the government's commitment to achieving net zero carbon emissions by 2050. The government's National Infrastructure Strategy highlights the importance of infrastructure to outcomes for consumers, the environment and disadvantaged areas of the country. The government wants private investors to continue playing a key role in financing infrastructure. However, the level of risk, particularly in relation to new technologies or early investment in projects, can deter potential private investors from otherwise attractive infrastructure projects.

2 In June 2021, HM Treasury launched the UK Infrastructure Bank (the Bank) to encourage private finance alongside public investment, to achieve two strategic objectives – helping to tackle climate change and supporting regional and local economic growth. The Bank is a publicly owned company, with HM Treasury as the sole shareholder. UK Government Investments acts as the shareholder representative, including as a member of the Bank's Board. HM Treasury has provided for the Bank to invest up to £22 billion of public money over its first five years, through a combination of equity, loans and guarantees to support infrastructure projects. It has asked the Bank to prioritise five sectors: clean energy, transport, digital, water and waste.

3 In its design, the Bank bears strong similarities with other government interventions, particularly the Green Investment Bank set up to promote green finance, and the British Business Bank established to improve access to finance for smaller businesses. We published reports on the set-up and performance of those companies.[1] The Bank is larger than both of those interventions in terms of public resources to be committed and has, for example, a much broader potential scope than the Green Investment Bank had.

Scope of this report

4 This report covers the Bank's set-up, including HM Treasury's planning before launch. It examines the Bank's progress in implementing HM Treasury's vision for the Bank, in terms of establishing structures and processes to pursue its objectives. It also looks forward to the main challenges facing the Bank, and how the Bank is preparing for them. We did not evaluate the success of the Bank's early investments as part of this study. Our methods are set out in Appendix Two.

1 Comptroller and Audit General, *The Green Investment Bank*, Session 2017–19, HC 619, National Audit Office, December 2017; Comptroller and Audit General, *The British Business Bank*, Session 2019–20, HC 21, National Audit Office, January 2020.

Key findings

Preparing for launching the Bank

5 HM Treasury wanted to launch the Bank quickly and did so, truncating some important elements of the usual process or deferring them until after launch. In July 2018 the National Infrastructure Commission recommended to government the creation of an infrastructure bank by 2021. HM Treasury began planning for the Bank in August 2020, convening a Programme Board to run and oversee the planning process, which at 10 months was around 14 months shorter than the planning time for the Green Investment Bank and the British Business Bank. HM Treasury produced one business case (rather than the usual three), on which it was still working after the Bank had launched. Its options appraisal was mostly qualitative, and we found no detailed analysis in the business case as to how the Bank's available capital (£22 billion) was set, or how the sectors, technologies and investment stages where the Bank could most usefully invest were identified. The Bank launched in June 2021. As HM Treasury had planned, and as outlined in its March 2021 Policy Design document, the Bank launched with a number of aspects still to be settled. This included detailed objectives and performance metrics, staffing and business processes. HM Treasury put in place controls to minimise risks to the taxpayer, such as investment limits (paragraphs 1.4 to 1.6, 1.10, 2.2 to 2.4, 2.8 to 2.12, and Figure 6).

6 In designing the Bank, HM Treasury learned from comparable interventions. The Bank's structure and relationship with government are intentionally similar to other government interventions, particularly the Green Investment Bank and the British Business Bank. We have seen evidence of HM Treasury and the Bank learning lessons from those institutions, for example through involving people with direct experience of them in the planning and implementation processes, and through specific elements designed in response to challenges we had identified in our reports on those interventions. Both the Green Investment Bank and the British Business Bank were launched in shadow-form before going live; however, HM Treasury took the decision to launch the Bank "in operational interim form", increasing the number of tasks to complete once the Bank was "open for business" (paragraphs 1.13, 2.3, 2.4 and 2.9).

Progress since launch

7 **The Bank, with HM Treasury support, has worked hard to build its structures and processes.** A range of important operational framework elements were not in place at launch, for example around people, processes, and technology. At launch, there was a permanent chair and a partial interim board, and by late 2021 HM Treasury had appointed some interim senior executives to the Bank under a permanent chief executive it appointed in September 2021. The Bank has recruited at other levels, and staff numbers have increased from six in June 2021 to 127 in April 2022, relying heavily on interim, temporary and contract staff. While the Bank's first three deals were approved through HM Treasury's existing processes, the Bank has developed processes for encouraging, scrutinising and approving investments. The Bank has developed these, and a suite of governance and risk management approaches, seeking to draw on public and private sector good practice. It currently relies heavily on existing HM Treasury systems – for financial management, for example – but it has in place plans to develop its own technology solutions (paragraphs 2.11 to 2.18 and Figures 7 and 8).

8 **There is more still to do to make the Bank a fully operational organisation.** To be fully operational, the Bank requires a strategy, governance structures and a full suite of product offers including the powers to lend to local authorities. In May 2022, HM Treasury introduced a Bill which when enacted would grant the Bank the full range of powers to fulfil its local authority lending function. In June 2022, the Bank published its first strategic plan. Updated annually, this will set out how the Bank will fulfil its strategic objectives, how it will act in accordance with the operating principles that HM Treasury set for it, and how it will measure its performance and impact. A key element of the Bank's governance – the completion of key Board committees – will only be complete when the non-executive directors whose appointments were announced in June 2022 take up their posts. The Bank has not begun to deliver its function of advising local authorities and is still developing how this will operate in practice. The Bank is deliberately not marketing this function until it is capable of delivering it (paragraphs 2.12, 2.21, 2.24 to 2.26 and 3.6).

9 **The Bank has made some early deals in a measured way, and there appears to be high demand for its investment.** At the end of May 2022, the Bank had made five deals, which are all loans, amounting to £311.5 million.[2] These are not representative of the full range of investment government hopes the Bank will deliver. Although the Bank considers the underlying projects to be more complex than government would typically invest in, the investment structure (loans) of some of the deals are similar to those which other parts of government already make. The Bank has sought to proceed with deals at a pace it is comfortable with, while completing the development of its internal controls and processes, including research skills. It will be some time before these are in place to enable the Bank to make higher-risk equity investments. There were 44 potential deals in the pipeline at the end of April 2022, representing around £5 billion. The Bank will not go ahead with all of these deals but it demonstrates the range of investment opportunities in its priority sectors. The pipeline is developed through a range of enquiries coming in through the Bank's website and existing contacts (reactive), and through market engagement (proactive). The Bank aims to be aware of every major infrastructure deal even if it chooses not to invest (paragraphs 2.27 to 2.29 and 3.15, and Figures 10 to 13).

Future challenges

Continuing the build-out of the organisation

10 **The Bank needs to complete several tasks before the organisation is at 'steady state'.** As outlined in paragraph 8, there are several steps the Bank needs to take before becoming fully operational. These include:

- recruitment of permanent staff at all levels, which will be influenced through its pay and reward offer, although recruitment is also affected by labour market conditions;
- developing its own corporate functions, such as financial management and IT systems so it does not have to rely on HM Treasury systems; and
- developing its systems and processes, to help it identify and manage investments.

The Bank recognises these challenges and seeks to mitigate and manage them through its risk management and other organisational processes (paragraphs 3.3 and 3.21).

2 Five Bank deals had reached financial close by the end of May 2022. Financial close is the point where all project and financing agreements have been signed and financing can be drawn down to commence the project.

11 **The Bank is in the early stages of developing its advisory function, and its approach to engaging with its stakeholders.** HM Treasury said that the Bank's function to advise and support local authorities would be "phased in". The advisory function remains in its early stages as the Bank is still working through, for example, how it will allocate its support fairly and consistently across projects, where it can add value and how it will measure its performance. The Bank has not set a go-live date for the advisory function. The Bank has shared with us a plan for engagement during its next phase, but we have not yet seen plans for how the Bank will assess whether its engagement is working as intended (paragraphs 2.25, 3.5, 3.6 and 3.8).

12 **The Bank's governance structures will need to work effectively to ensure it maintains operational independence and manages investment risks.** HM Treasury has established governance arrangements for overseeing the Bank's activities, and set out clearly which matters are reserved for itself as the shareholder. The Bank and HM Treasury need to ensure this relationship works, to maintain the confidence of private sector investors. As part of the accountability process, the Bank has established clear investment and due diligence processes for individual investment decisions. Many of these due diligence processes, such as legal and financial, are currently outsourced to contractors. As the Bank grows it will need to explore which due diligence functions, if any, will be undertaken in-house. We have not seen any plans for how the Bank will do this (paragraphs 1.6, 2.6, 2.12 to 2.16 and 3.10 to 3.12).

Targeting activity

13 **The Bank will need a detailed understanding of investment needs based on a thorough analysis of the markets it operates in.** HM Treasury's analysis of investment needs, before launching the Bank, was high-level and drew mainly on existing information sources such as the National Infrastructure Commission. By comparison, the Department for Business, Energy & Industrial Strategy (BEIS) had commissioned an 'analysis of needs' before launching the Green Investment Bank. The Bank has undertaken analysis, including market engagement, which informs the assessment in its strategic plan setting out where it considers its investment opportunities lie. Alongside a detailed understanding of investment needs, the Bank requires an impact framework which clearly shows where it can best intervene, and a clear view and messaging of what the Bank's distinct offer is. For example, HM Treasury has set a minimum lending threshold of £5 million for local authority projects to avoid spreading resources across too many smaller transactions, but we have not seen any detailed analysis assessing what different funding levels, regions and project types are most in need of support. This type of analysis is important to ensure that the Bank is effectively targeting its investment, and opportunities are not inadvertently overlooked (paragraphs 2.10, 2.22 and 3.14 to 3.16).

14 **The Bank needs good information to help it manage tensions between its objectives, operating and investment principles.** In addition to setting strategic objectives and operating principles for the Bank, HM Treasury set four investment principles that the Bank must follow in its decisions on individual investments. HM Treasury and the Bank recognise there could be tensions it will need to manage, for example an investment may deliver strong local growth but be harmful to the environment. To mitigate these tensions, the Bank has established investment decision processes that assess the potential impact of each investment against the Bank's objectives. In developing its impact framework, the Bank will need to be clear what an acceptable range looks like for its objectives and principles, and measure performance against these criteria. Over time this information set will offer it a benchmark against which to consider future similar investments (paragraphs 3.18 to 3.20, and Figure 5).

15 **There are things outside the Bank's control which will affect its ability to deliver.** The viability of the project types the Bank intends to invest in depends on macroeconomic factors, for example the revenues that projects can ultimately generate and factors such as supply chains and cost inflation. The Bank's ability to attract private finance depends on the same factors, and also financial market conditions such as the levels of cash available to invest. Public sector investment banks are often expected to be counter-cyclical – that is, to invest in markets when others are withdrawing owing to economic circumstances. While the Bank undertakes some scenario analysis covering demand volatility and investment performance, it does not include impacts of changes in wider macroeconomic variables, such as inflation (paragraph 3.21).

Demonstrating success

16 **HM Treasury has set two high-level objectives and an earnings target for the Bank, but has not specified criteria for judging whether the intervention has been successful overall.** HM Treasury has set the Bank a target of helping to tackle climate change and aiding regional growth alongside earning an annual return on equity of between 2.5% and 4% by 2025-26. The Bank has translated this into a "triple bottom line", delivering: the financial return target; a positive impact on local growth and net zero; and ensuring its investment brings in additional private investment. The Bank has also outlined in its strategic plan how it will use four key performance indicators to appraise the impact of its individual investments on regional growth and net zero, and is aiming to have benchmarks in place for these by December 2022. What we have not seen is the detail of how the Bank will bring this information together with other measures, such as efficiency, to assess performance of the organisation as a whole. The Bank told us it plans to evaluate its activities, but it has not yet developed an evaluation strategy or framework. HM Treasury plans to review the Bank's performance in spring 2024. However beyond the equity target it has not defined specific criteria by which it would judge the success of the Bank (paragraphs 2.14, 3.20 to 3.27 and Figure 5).

17 **The Bank will need to strike a balance between managing costs at a time of pressures on public finances, and recruiting the specialist investment skills it needs to deliver its mission**. The Bank's return target brings together cost and financial return information but does not give information on whether the Bank is operating efficiently – for example, returns at the low end of the range could indicate low investment returns, or operational inefficiency, or both. As a delivery model, creating the Bank is a relatively high-cost option compared with alternatives because of the cost of establishing and operating a separate institution in a sector which attracts higher rates of pay than the public sector. Our analysis of the Bank's budget projections suggests that, compared with the experiences of the Green Investment Bank and the British Business Bank, the Bank will have relatively higher operating costs per employee in its first full year but will be middle-ranking in the subsequent two years. The Bank has commissioned and received external benchmarking of its pay and reward proposal. But we have not yet seen evidence of the Bank planning to benchmark the costs of individual support functions such as HR, or to benchmark the Bank as a whole with suitable comparators, as the British Business Bank has sought to do (paragraphs 2.7, 2.17 to 2.20, 3.23, 3.27, and Figure 9).

18 **The Bank will need to demonstrate that it is adding value to justify its additional costs.** The government wants the Bank to be ambitious in scale and scope. It also wants the Bank to be financially self-sustaining for the long term, through recycling returns from investments. Stakeholders we engaged with also want the Bank to be innovative – taking bold risks that others cannot, or will not. At an organisational level, the Bank needs to take an appropriate risk approach allowing it to deliver on the government's ambitions, while still managing the risks to public money from making available up to £22 billion in investment and guarantees, and ensuring it has the correct skills and experience to maximise returns and minimise losses. To establish credibility and add value, the Bank will need to develop a clear view of things only it can do, and to build its expertise and reputation around these. As it develops its performance measurement framework, it will need to establish indicators that stretch the organisation (paragraphs 3.9, 3.23 to 3.29 and 3.32).

Conclusion on value for money

19 The government wanted to be ambitious in creating the UK Infrastructure Bank, both in the scale of its purpose and the intention that it should start making deals as quickly as possible. Moving at this speed meant some important planning steps were skipped, and many aspects of the Bank's structure and processes were, deliberately, not in place at launch. This is an unusual approach, and HM Treasury took steps to ensure controls existed to protect taxpayers' money. Officials at the Bank, with support from HM Treasury, took a pragmatic approach by progressing new investments at a pace in line with its available resources, while recruiting staff and establishing systems and controls: a trade-off for moving at speed to open the Bank.

20 The Bank, with HM Treasury support, has worked hard since launch to complete the Bank's set-up. Some elements, particularly its advisory function, remain to be established and it will take time for the Bank to fully mature, so it is too early to say whether the Bank will be a success. The Bank will need to manage a range of operational and external challenges if it is to deliver government's ambition for it. It will need to clearly demonstrate its achievements and that it is justifying the costs of establishing the Bank as a separate institution. Drawing together information on costs and impact will be essential in allowing the Bank to demonstrate value for money. Developing a clear view of where investment is most needed, and an impact framework that shows where the Bank's interventions are most effective, will be vital to its future success.

Recommendations

21 We make the following recommendations:

a HM Treasury should confirm by the end of summer 2022 how it intends to conduct a post-implementation review and include in that work an assessment of how the Bank's initial structures are working in practice and whether they are appropriate to the Bank's ongoing role.

b The Bank should, learning from the Green Investment Bank and British Business Bank interventions, further develop its understanding of where infrastructure needs are greatest so that it routinely informs investment decisions and prioritises them. It should bring this understanding of needs together with a clear view of what it can do best, based on its skills and information about its performance.

c In developing its performance measurement framework, the Bank should ensure it has metrics and benchmarks allowing it to assess in detail whether it is balancing all of its objectives and delivering on the government's ambition for it. HM Treasury and the Bank need to develop a more robust plan for evaluating the Bank's activities over the longer term, to help it measure additionality and assess which of its tools are most cost-effective.

d The Bank should benchmark its costs for individual support functions, such as HR, and the organisation as a whole, with suitable comparators. It should work towards bringing together performance and financial information to help it assess its own cost-effectiveness.

e The Bank should develop clear aims for its advisory function and develop measures to help it assess performance over time. It should develop a formal and strategic approach to engagement, including communicating to market participants a clear picture of what the Bank is best placed to do and, correspondingly, what it will not do.

f The Bank should work with central government and other public bodies to structure its engagement, including through formal arrangements where appropriate, to maximise opportunities for co-operation and co-ordination where beneficial and to manage areas of potential duplication.

g The Bank should develop approaches to assessing whether its engagement with local authorities, other stakeholders and the market is working as intended.

Part One

Background

1.1 This Part examines HM Treasury's rationale for creating the UK Infrastructure Bank (the Bank), the Bank's functions and objectives, and the context in which it operates.

Rationale for an intervention

1.2 Good-quality infrastructure is essential to the delivery of services across a range of sectors such as transport, energy and telecommunications. Building and maintaining infrastructure requires significant investment: the National Infrastructure and Construction Pipeline projected £650 billion of expenditure on new projects between 2021 and 2031. Achieving government's aims as set out in the national infrastructure strategy will require investment for longer than this time horizon. For example, in 2020 the Climate Change Committee estimated government's commitment to achieving net zero carbon emissions by 2050 requires investment to increase to around £50 billion each year between 2030 and 2050. The government's National Infrastructure Strategy highlights the importance of infrastructure to outcomes for consumers, the environment and disadvantaged areas of the country.[3]

1.3 The government wants private investors to continue playing a key role in financing infrastructure. However, the level of risk, particularly in relation to new technologies or early investment in projects, can deter potential private investors from otherwise attractive infrastructure projects: this may lead to what is known as market failure. Government interventions can seek to mitigate these market failures, for example by issuing guarantees which private investors can call on if specified risks materialise. The public-sector options for financing infrastructure investment alongside the private sector have reduced in recent years. For example, government used Private Finance 2, alongside its predecessor the Private Finance Initiative (PFI), over the past 25 years to deliver more than £60 billion of infrastructure projects, until it withdrew the model in October 2018.[4] An additional challenge HM Treasury identified for delivering government's policy objectives was the loss of European Investment Bank infrastructure financing following the UK's decision to leave the EU. **Figure 1** shows that European Investment Bank financing exceeded £5 billion in each of the four years to 2016, although not all of this related to infrastructure.

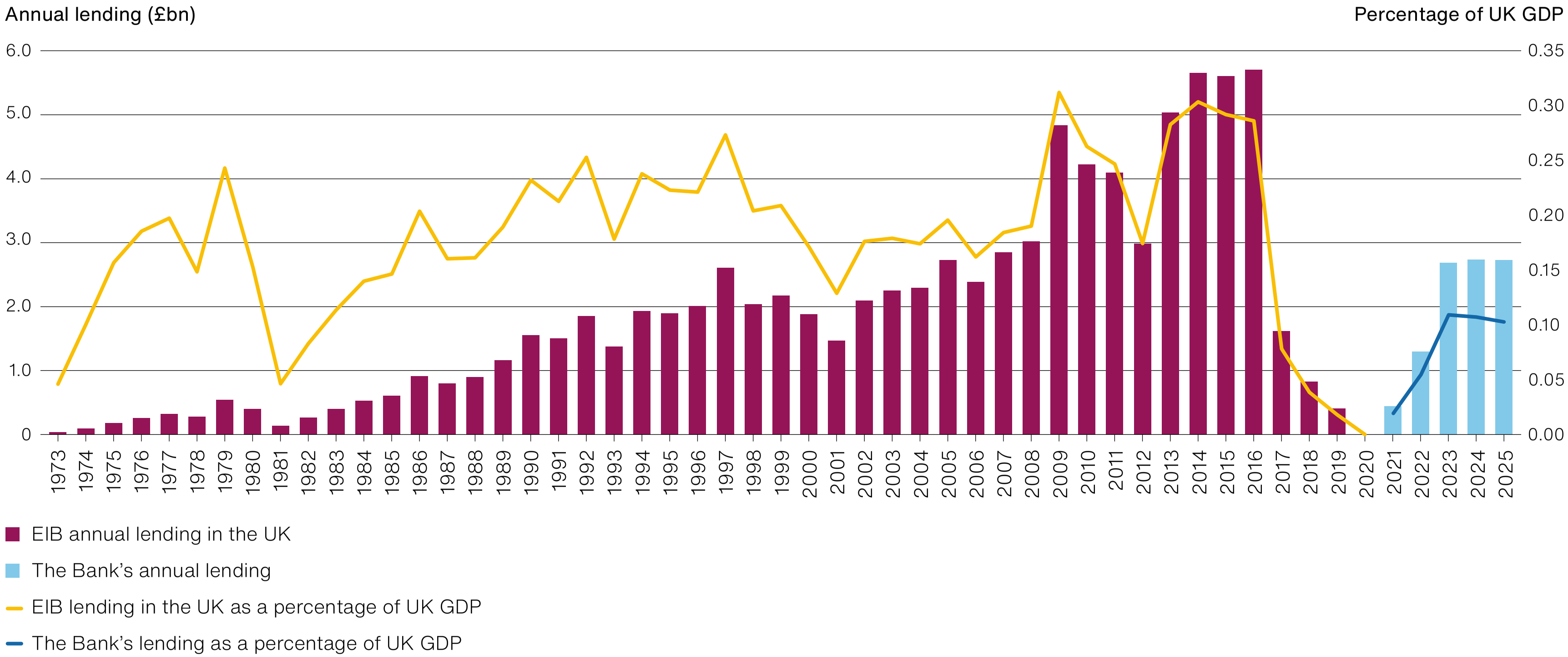
3 HM Treasury, *National Infrastructure Strategy*, November 2020. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938539/NIS_Report_Web_Accessible.pdf

4 Around £38 billion of PFI projects are classified as 'accommodation'-type projects such as schools, hospitals and office buildings. Taken from: National Audit Office, *The choice of finance for capital investment*, March 2015.

Figure 1

European Investment Bank (EIB) financing to 2019 in the UK, and forecast UK Infrastructure Bank (the Bank) investment from 2021

The Bank is forecast to lend and invest around a half of the financing the EIB previously provided prior to the EU referendum[1,2,3]



Notes

1 EIB figures are on a calendar year basis and represent actual values. The Bank's figures are on a financial year basis and represent forecast values.

2 Figures are exclusive of guarantees.

3 Proportion estimates have been calculated as a proportion of UK Gross Domestic Product (GDP).

Source: Office for Budget Responsibility, and National Audit Office analysis of the UK Infrastructure Bank's data

Post publication this page was found to contain an error which has been corrected (Please find Published Correction Slip)

1.4 HM Treasury concluded that creating an infrastructure bank offered the best prospects for delivering the government's objectives.

- HM Treasury saw a bank as the most effective way to deliver public finance for some infrastructure projects while attracting private finance and replacing European Investment Bank financing. In July 2018, in its first National Infrastructure Assessment, the National Infrastructure Commission said that if access to European Investment Bank financing was lost "a new, operationally independent, UK infrastructure finance institution should be established by 2021. To enable this, government should consult on a proposed design of the new institution by spring 2019".[5]
- HM Treasury also saw a bank as an opportunity to improve the quality of local authority infrastructure projects. While local authorities have cheap and effective access to finance through the Public Works Loan Board, HM Treasury intended a bank would provide support and expertise to local authorities, increasing the level of scrutiny on their investment proposals.

1.5 In March 2021 HM Treasury published the UK Infrastructure Bank Policy Design. It outlined the Bank's mandate and design, including government's rationale for the Bank and its initial areas of focus. It also included operating principles for a successful Bank. The document states that as government was working at speed to establish the Bank it envisaged a phased approach to its establishment, focusing initially on the design and set-up of the Bank in interim form. The document set out three phases for the Bank: establishment; operating in interim form; and the medium term. It is only in the medium-term stage, once the Bank is established in legislation as a statutory body, that the Bank is expected to have "full capacity, powers and resources to deliver against its mandate".

The Bank's governance, functions and objectives

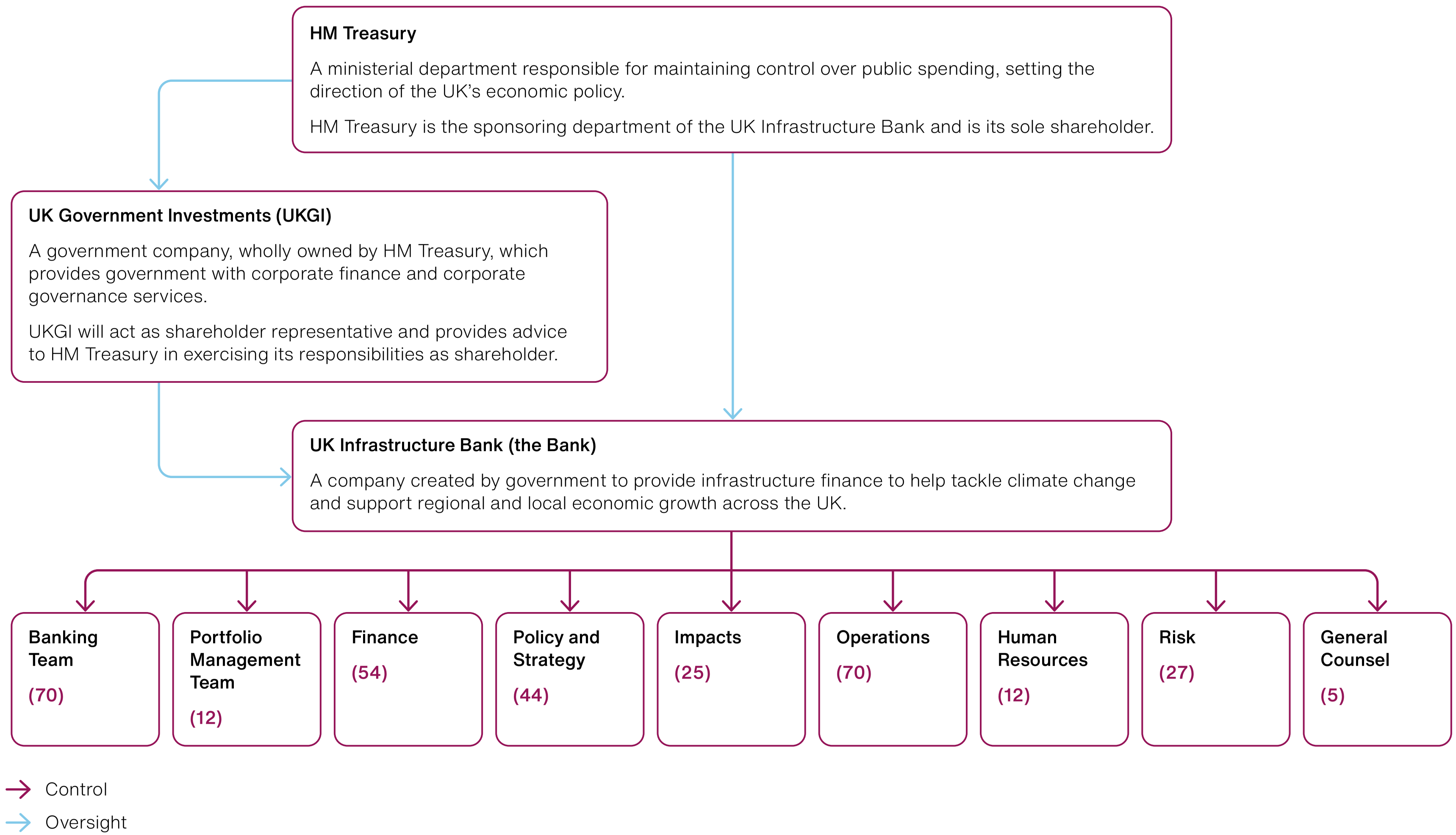
1.6 In June 2021, HM Treasury launched the Bank. It is a publicly owned company with HM Treasury as the sole shareholder (**Figure 2**). The Bank is operationally independent of government and is governed by a Board, which is still in the process of being established fully. UK Government Investments acts as the shareholder's representative on the Bank's Board. The relationship between the three parties is set out in a Framework Document, from June 2021, which covers aspects such as legal status, roles and responsibilities, and objectives.

5 National Infrastructure Commission, *National Infrastructure Assessment*, July 2018. Available at: https://nic.org.uk/app/uploads/CCS001_CCS0618917350-001_NIC-NIA_Accessible-1.pdf

Figure 2

Governance structure of the UK Infrastructure Bank (the Bank) as at May 2022

HM Treasury wholly owns the Bank and UK Government Investments (UKGI) manages the shareholding on its behalf[1]



Notes

1 Numbers in brackets reflect forecast staff numbers at 'steady state' (which the Bank expects to reach in summer 2023) as outlined in the Bank's January 2022 business plan. Total forecast staff numbers sum to 320. The above figures sum to 319 as the chief executive officer is excluded.

2 The shareholder representative sits on the Bank's Board.

Source: National Audit Office analysis of HM Treasury, UK Government Investments and UK Infrastructure Bank documents

1.7 The Bank's core mission is to "partner with the private sector and local government to increase infrastructure investment to help to tackle climate change and promote economic growth across the regions and nations of the United Kingdom". HM Treasury views the Bank as part of the government's plan to deliver more than £600 billion in gross public sector investment between 2021 and 2026. HM Treasury set the Bank two strategic objectives to deliver its mission:

- "To help tackle climate change, particularly meeting the government's net zero emissions target by 2050".
- "To support regional and local economic growth through better connectedness, opportunities for new jobs and higher levels of productivity."

1.8 These objectives align to government ambitions to achieve net zero carbon emissions and to "level-up the regions". Policy delivery in these areas is covered by a number of government departments and local authorities. There are many stakeholders who have a view on the sectors the Bank will seek to influence, including for example, green finance, climate change and environmental issues, and economic growth and development. HM Treasury took views from more than 60 stakeholders while planning for the Bank (**Figure 3**). While the Bank is operationally independent, it has engaged with, and will continue to engage with, stakeholders across all these areas.

Operationalising the objectives

1.9 Across these objectives, the Bank provides three functions:

- **Private sector financing:** Providing a range of financing including loans, taking stakes in projects (equity investments) and guarantees.
- **Lending to local authorities:** Providing loan finance to local and mayoral authorities across the UK for high-value and complex economic infrastructure projects.
- **Advisory:** Developing an expert advisory service to help local authorities, and other project sponsors, develop and finance projects.

1.10 HM Treasury has provided the Bank up to £22 billion in capital. This is a combination of direct funding from HM Treasury, transfer of existing commitments to the Bank, and a line of credit whereby the Bank can borrow up to £7 billion from the Debt Management Office or through private markets – depending on which offers better value for money – up to a maximum of £1.5 billion per year.

Figure 3

A summary of the UK Infrastructure Bank's (the Bank's) main stakeholders

The Bank has a range of stakeholders within and outside of government[1]

Stakeholders in government

Devolved administrations

Scotland, Wales and Northern Ireland will all have access to the Bank and can apply for infrastructure financing.[2]

Local government

The Bank will be able to offer loans to local authorities to help support infrastructure projects; it will also develop an advisory function to support local authorities.

Central and non-ministerial government departments

The Bank's objectives and activities relate to the policy areas and activities of other parts of government, for example BEIS and DLUHC.[3]

Infrastructure and Projects Authority (IPA)

The IPA is the government's centre of expertise for infrastructure and major projects. The IPA supports the delivery of all major projects and reports to the Cabinet Office and HM Treasury.

Stakeholders outside government

Environmental groups

One of the Bank's two strategic objectives is to help tackle climate change, particularly meeting the government's net zero emissions target by 2050.

Environmental groups are interested in the outcomes that the Bank achieves regarding its strategic objective to help tackle climate change.

Consumers

Consumers benefit from improvements in infrastructure; in several sectors, consumers pay for infrastructure investments through their service usage charges.

Notes

1 This is representative of the main stakeholders relevant to the Bank's operations; it is not exhaustive.

2 A different set of arrangements will be required in Northern Ireland. The Northern Ireland Executive holds responsibility for most capital infrastructure projects that would be the responsibility of local authorities in the rest of the UK. The UK government will therefore legislate to ensure that the Bank is able to lend to the Northern Ireland Executive as well as local authorities in Northern Ireland.

3 BEIS is the Department for Business, Energy & Industrial Strategy. DLUHC is the Department for Levelling Up, Housing & Communities.

Source: National Audit Office analysis of the UK Infrastructure Bank's and other publicly available documents

1.11 HM Treasury expects the Bank to use this money to make equity and debt investments of around £12 billion, and to issue guarantees of around £10 billion. Of this, £4 billion of lending will be ring-fenced for local authorities. The Bank has taken over the administration and management of the existing £1.97 billion of UK Guarantees Scheme guarantees, which were managed by the Infrastructure and Projects Authority and are in addition to the Bank's ability to issue £10 billion of new guarantees. The Bank is limited to a maximum of £2.5 billion in new guarantees in any financial year. **Figure 4** shows how this financing and investment is broken down.

1.12 HM Treasury has established five priority sectors for the Bank's investments. These are: clean energy; transport; digital; water; and waste. The Framework Document specifies other types of investment which the Bank can make, including those prohibited or to be avoided. The same document sets out six operating and four investment principles for the Bank (**Figure 5** on page 22).

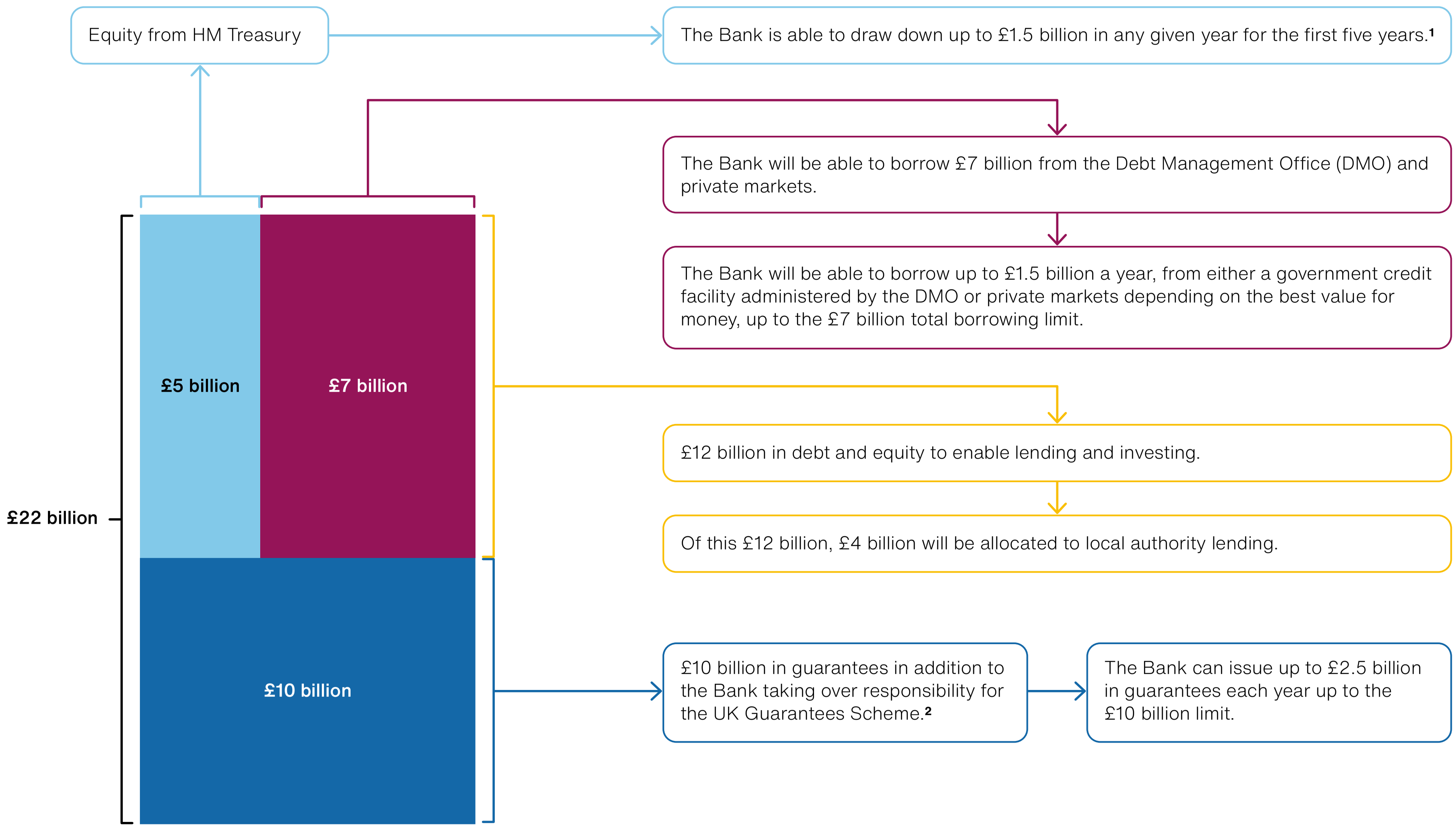
Study scope

1.13 In its design, the Bank bears strong similarities with other government interventions, particularly the Green Investment Bank set up to promote green finance, and the British Business Bank established to improve access to finance for smaller businesses. We published reports on the set-up and performance of those banks. The Bank is on a larger scale than both those interventions in terms of public resources to be committed and, for example, has a much broader potential scope than the Green Investment Bank had.

1.14 This report covers the set-up of the Bank, including the planning that HM Treasury undertook before launch. It examines the Bank's progress in implementing HM Treasury's vision for the Bank, in terms of establishing structures and processes in order to pursue its objectives. It also looks forward to the main challenges facing the Bank, and how the Bank is preparing for them. We did not examine individual deals that the Bank has entered into as part of this study. Our fieldwork was completed up to the end of April 2022. As the Bank is still operating in interim form and developing its processes and procedures, many documents we reviewed during our fieldwork, including the Bank's strategic plan, were in draft form. Our methods are set out in Appendix Two.

Figure 4
The capital available to the UK Infrastructure Bank (the Bank) for investments and guarantees

The Bank has up to £22 billion to make investments and guarantees



Notes

1 The reference to drawdown in the first five years is taken from the June 2021 Framework Document between HM Treasury and the Bank. The Bank told us that the unpublished November 2021 Financial Framework, also agreed with HM Treasury, does not specify a five year time bound.

2 The Bank told us that its funding mix is fungible, meaning, for example, that it is not required to issue £2.5 billion in guarantees each year, or use its equity to make equity investments.

Source: National Audit Office analysis of the UK Infrastructure Bank's documents

Figure 5

UK Infrastructure Bank's (the Bank's) mission, objectives, investment and operational principles, May 2022

HM Treasury has set a mission and two strategic objectives for the Bank

Mission:

The Bank's core mission is to partner with the private sector and local government to increase infrastructure investment to help to tackle climate change and promote economic growth across the regions and nations of the UK.

Strategic objectives:

1 Help tackle climate change, particularly meeting the government's net zero carbon emissions target by 2050.

2 Support regional and local economic growth through better connectivity, opportunities for new jobs and higher levels of productivity.

Operating principles:

- **Achieving policy objectives and generating a positive financial return over time:** the Bank will work towards achieving a double-bottom line, whereby investments help to achieve the core policy objectives to tackle climate change and support regional and local economic growth, while generating a positive financial return to ensure the financial sustainability of the institution and to reduce the burden on the taxpayer.
- **Partnership:** the Bank will operate in partnership with private and public sector institutions and other stakeholders to finance and support infrastructure investment.
- **Additionality:** the Bank will prioritise investments where there is an undersupply of private sector financing and, by reducing barriers to investment, crowd-in private capital.
- **Operational independence:** the Bank will have delegated authority to make investment decisions, subject to meeting certain conditions agreed with the shareholder.
- **Impact and credibility:** the Bank will be a long-lasting institution and will able to provide long-term patient capital through its investments.
- **Flexibility:** the Bank will have flexibility to adapt and respond to evolving market conditions to enable it to deliver on its mandate.

Investment principles:

- The investment helps to support the Bank's objectives to drive regional and local economic growth or support tackling climate change.
- The investment is in infrastructure assets or networks, or in new infrastructure technology. The Bank will operate across a range of sectors, but will prioritise in particular clean energy, transport, digital, water and waste.
- The investment is intended to deliver a positive financial return, in line with the Bank's Financial Framework.
- The investment is expected to crowd-in significant private capital over time.

Note

1 The Bank's Framework Document refers to six operating principles; in its strategic plan, the Bank combined two of the principles into one, referring to a "triple bottom line" of the financial return target; a positive impact on local growth and net zero; and ensuring its investments brings in additional private investment.

Source: National Audit Office analysis of the UK Infrastructure Bank's documents

Part Two

Planning and implementation

2.1 This Part examines how HM Treasury planned for and established the UK Infrastructure Bank (the Bank) and how the Bank has progressed since launch, including its deals to date and its work on a pipeline of future deals. In evaluating these areas we have drawn on HM Treasury's original plans to assess progress to date and experience from comparable interventions particularly the Green Investment Bank and the British Business Bank.

Planning

Planning stage

2.2 In July 2018, the National Infrastructure Commission recommended the creation of an infrastructure bank by 2021 if access to European Investment Bank financing was lost, which happened in February 2020. And in November 2020, the government announced in its National Infrastructure Strategy that it would set up a new national infrastructure bank, "from spring 2021, so it can play a role in supporting the UK's economic recovery from the COVID-19 pandemic".[6]

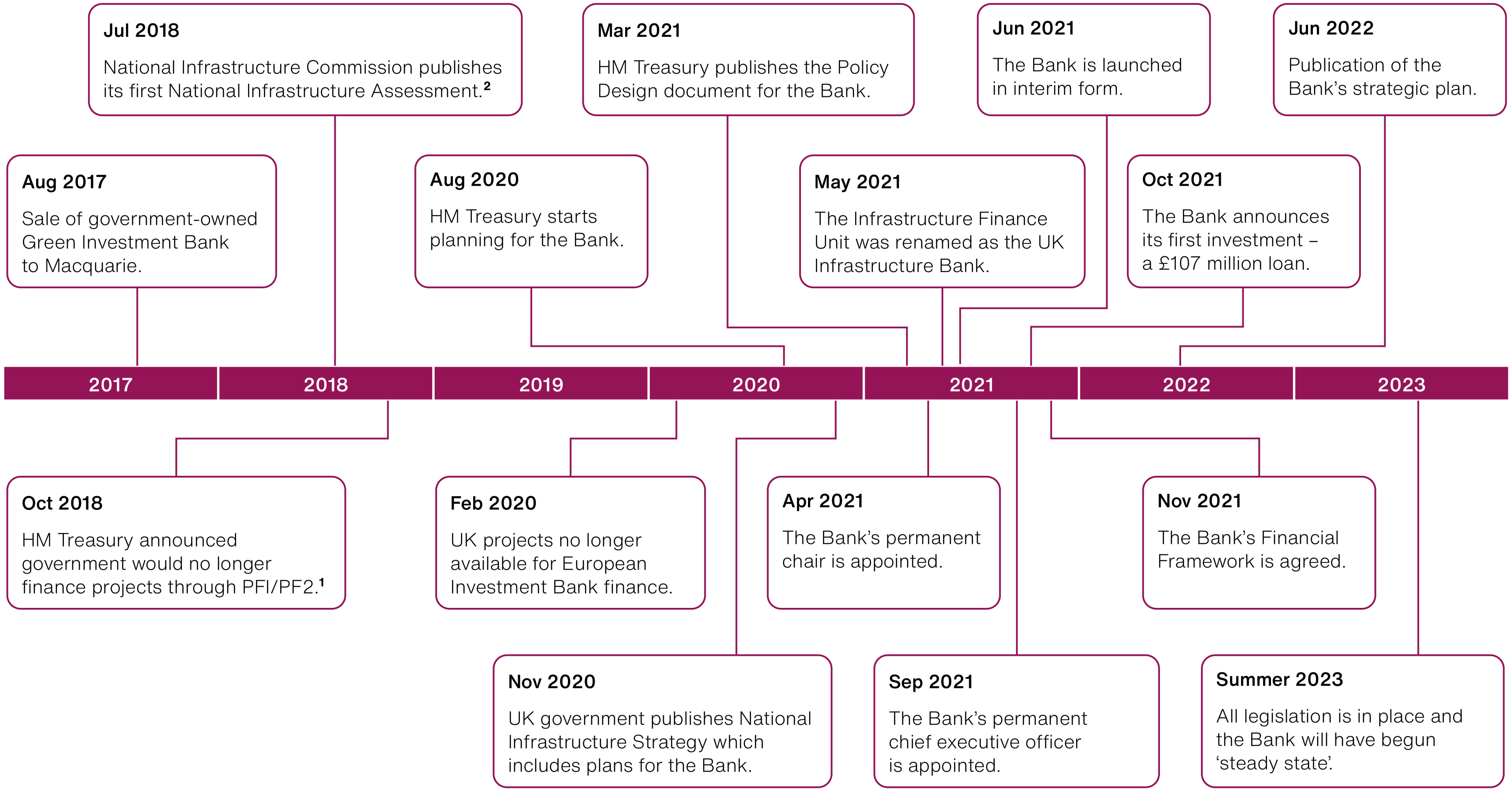
2.3 The planning stage began in August 2020 when ministers asked officials to work on launching a Bank (**Figure 6** overleaf). HM Treasury created a Programme Board to oversee the Bank's creation. HM Treasury ministers indicated to officials in October 2020 that they wanted a bank "operational in some form" by April 2021, and that officials should focus on achieving a couple of early transactions.[7] The Bank was launched "in operational interim form" in June 2021 with HM Treasury stating that the Bank was "open for business".[8]

6 HM Treasury, *National Infrastructure Strategy*, November 2020. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938539/NIS_Report_Web_Accessible.pdf
7 HM Treasury submission to Ministers, October 2020.
8 HM Treasury Outline Business Case for the Bank, and HM Treasury press release, *UK Infrastructure Bank opens for business*, 17 June 2021. Available at: https://www.gov.uk/government/news/uk-infrastructure-bank-opens-for-business

Figure 6

Timeline of the UK Infrastructure Bank's (the Bank's) development

The Bank launched in June 2021 in interim form and expects to be fully established by summer 2023



Notes

1 Private finance initiative (PFI) and its successor (PF2) financed around £60 billion of infrastructure investment in the UK, including schools, roads and hospitals. In October 2018 it was withdrawn for new projects.

2 The National Infrastructure Commission (NIC) is an executive agency of HM Treasury, providing the UK government with independent and impartial expert advice on major long-term infrastructure challenges.

Source: National Audit Office analysis of HM Treasury and the UK Infrastructure Bank's documents, previous National Audit Office reports and documents from other publicly available sources

2.4 As outlined in paragraph 1.5, the Bank's Policy Design document (June 2021) outlined the tasks to be conducted during interim operations such as finalising policies and continuing to recruit while making investments. This approach differs from both the Green Investment Bank and the British Business Bank, which began operating in shadow-form before going live. As a result, the Bank needed to finalise its set-up after launch, alongside making investments. With the Bank launching in interim form in June 2021, the planning stage lasted 10 months. This was around 14 months shorter than the pre-launch planning stages of the Green Investment Bank and the British Business Bank.[9]

Establishing the Bank

2.5 HM Treasury established the Bank as a publicly owned company with operational independence.[10] This decision is in line with Cabinet Office's *Public Bodies Handbook,* which suggests that a new body can be created where it is a technical function requiring expertise, or where it needs to be, and be seen to be, delivered with "absolute political impartiality".[11]

2.6 This structure seeks to assure markets and private investors that the organisation will not be subject to undue political influence. Specific governance arrangements are necessary to ensure robust oversight and accountability alongside the greater freedoms that the model provides to the company. This protection for taxpayers is particularly important for the Bank as it makes investments which can expose the taxpayer to significant financial risk.

2.7 This model can carry additional costs compared with other options, such as delivering the policy from within an existing government department. Intervening through a separate institution incurs costs of creating the institution, running centralised functions such as IT and human resources. Some arm's-length bodies, with permission from HM Treasury, are allowed to pay higher salaries than the civil service to attract people with specific skills. It is important that the Bank delivers benefits that justify these additional costs.

9 For both the Green Investment Bank and the British Business Bank, the government needed to secure State Aid clearance from the European Commission for parts of their activities, which was not necessary for the UK Infrastructure Bank.

10 The Bank was created by renaming an existing HM Treasury-owned private limited company, Infrastructure Finance Unit Limited.

11 Cabinet Office, *Public Bodies Handbook – Part 2, The Approvals Process for the Creation of New Arm's-Length Bodies: Guidance for Departments,* page 6. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/686716/The_Approvals_Process_for_the_Creation_of_New_Arm_s-Length_Bodies.pdf

2.8 Aspects of the truncated planning process make it difficult to be certain that the model chosen is the correct one for HM Treasury's policy intention. The business case process was narrower than usual, with an outline business case but no strategic outline case or full business case. We found no detailed analysis in the business case as to how the Bank's available capital (£22 billion) was set, or how the sectors, technologies and investment stages where the Bank could most usefully invest were identified. The process ran in parallel with the launch of the Bank rather than preceding it, and continued after launch. HM Treasury developed an options appraisal which included a wide range of options, although it was mostly a qualitative assessment. This options appraisal did not examine whether a bank was the best delivery option for each of the distinct activities that the Bank could undertake. Most stakeholders we interviewed, however, supported the creation of an infrastructure bank. HM Treasury told us that the then ongoing COVID-19 pandemic affected its planning of the Bank.

2.9 There is evidence of HM Treasury learning from past interventions in its design of the model for the Bank. In both the Green Investment Bank and British Business Bank, the government adopted a similar model of a company with operational independence and specific oversight arrangements. In our reports on those interventions, we noted benefits from the intervention model chosen but that governance and financial arrangements needed careful management to ensure they operated well. In planning for the Bank, we saw evidence that HM Treasury officials had spoken with a range of relevant organisations and individuals, including some with direct experience of those interventions. In designing the Bank, HM Treasury has given the Bank the ability to borrow from private markets, where it is value for money to do so, which was not an option available to the Green Investment Bank. HM Treasury also told us that the Bank's design reflects its detailed analysis of the experience of the Canadian National Infrastructure Bank. HM Treasury did not, however, commission an independent pre-launch review, which the Department for Business, Energy & Industrial Strategy did to learn lessons before launching the Green Investment Bank. HM Treasury plans to review the Bank's progress and financial performance by spring 2024, to ensure it has sufficient capital to deliver its ambitions.

2.10 HM Treasury undertook a high-level assessment of where a bank should invest, which informed the priority sectors it established for the Bank. The priority sectors are all identified by the National Infrastructure Commission as key challenges in its second National Infrastructure Assessment.[12]

12 National Infrastructure Commission, *Second National Infrastructure Assessment*, November 2021. Available at: https://nic.org.uk/app/uploads/Revised-Second-National-Infrastructure-Assessment-Baseline-Report.pdf

Implementation

The position at launch

2.11 There are a number of things we would expect to see in place before a government company of this type is launched, including legal arrangements, senior appointments, planning and accountability arrangements. Some of them were in place before the Bank launched, some are in progress but not yet complete, and some are yet to be started or will not be done. **Figure 7** overleaf compares where the Bank was at launch, compared with the Green Investment Bank when it launched. HM Treasury and the Bank told us it was important to proceed at pace given the urgency of the Bank's two objectives, and that there are benefits of being open for business early, including an ability to credibly engage with the market and learn what investment is needed.

2.12 In the Bank's case, in April 2021, HM Treasury appointed a chair of the Board of the Bank. HM Treasury had put in the legal arrangements to launch the Bank as a corporate entity in June 2021 (see footnote 10). An HM Treasury official acted as the Bank's accounting officer – responsible to Parliament for stewardship of its resources – until a permanent chief executive officer could be appointed and trained in their responsibilities. By launch HM Treasury had also put in place a Framework Document setting out the relationship between itself (as shareholder) and the Bank, including the financial resources available to the Bank. But much of the work required to have a fully operational organisation, such as recruiting staff, a full board and internal structures and processes is ongoing. In the meantime there is heavy reliance on temporary staff and existing HM Treasury structures.

Completing the Bank's structure and processes

2.13 Since launch, HM Treasury and the Bank have worked to fill the gaps in the Bank's structures. The Bank initially operated with an partial interim Board, comprised of the chair, interim chief executive and interim chief operating officer, shareholder representative and interim non-executive director. Other senior executive roles, such as interim finance director, were filled on an interim basis using secondees and contractors. In September 2021, HM Treasury appointed the Bank's permanent chief executive who, as the Bank's accounting officer, is responsible to Parliament for the activities of the Bank and also has responsibilities to the Board and to HM Treasury as shareholder. HM Treasury began the process of appointing the Bank's permanent non-executive directors with the intention that they would be selected by December 2021, but the process took longer than anticipated. In June 2022, HM Treasury announced appointments to the remaining permanent executive and non-executive posts.

Figure 7

Comparison between the UK Infrastructure Bank (the Bank) and the Green Investment Bank, of the governance arrangements at their respective launches

At launch, more of the Green Investment Bank's governance arrangements were in place

		At launch	
		UK Infrastructure Bank	Green Investment Bank
Legal and constitutional framework	Articles of association	In place	In place
	Legislation in place	Not in place but planned	Not in place but planned
Appointments	Chair	In place	In place
	Permanent chief executive officer	Not in place but planned	In place
	Board active	In place	In place
	Permanent non-executive directors	Not in place but planned	In place
	Board sub-committees	Not in place but planned	In place
Planning arrangements	Outline business case completed	Not in place but planned	In place
	Full business case	Not done/planned	In place
	Plan for first 100 days after launch	In place	In place
	Independent pre-launch gateway review	Not done/planned	In place
Shareholder/ bank relationship	Shareholder Framework Document	In place	In place
	Permanent accounting officer	Not in place but planned	In place
	Accounting officer letter	Not in place but planned	In place
	Budget allocation and spending delegation letter	Not in place but planned	In place

- In place
- Not in place but planned
- Not done/planned

Note

1 The UK Infrastructure Bank was launched in June 2021 and the Green Investment Bank was launched in November 2012.

Source: National Audit Office analysis of documents of the UK Infrastructure Bank and the Green Investment Bank

2.14 In November 2021, HM Treasury and the Bank agreed a Financial Framework providing more detail on HM Treasury's requirements and expectations for the Bank in relation to financial resources and management. The Financial Framework includes provisions:

- confirming the financial resources available to the Bank, and its transaction delegations and limits. Before the Financial Framework was introduced, the Bank's delegated authority was £5 million, limiting its ability to spend above this without approval from HM Treasury. The Financial Framework introduced new thresholds ranging from £125 million for equity deals to £500 million for senior debt and local authority lending (see Appendix Three, Figure 15);
- outlining the Bank's responsibilities and the principles within which the Bank should operate, including *Managing Public Money*;
- setting out HM Treasury's expectations that the Bank develops sound financial and risk management structures and processes; and
- specifying an annual financial performance (return on equity) target for the Bank, of 2.5% to 4% before tax by the end of an initial five-year period. HM Treasury told us that it based this on the returns of comparator bodies such as the European Investment Bank, adjusted to allow the Bank to invest in projects to carry risk commensurate with its policy objectives.

Our review found that the contents of the Framework Document and the Financial Framework drew extensively on corresponding arrangements for the Green Investment Bank and the British Business Bank.

2.15 Since launch, the Bank has been developing its internal governance, financial management and risk management arrangements. These include a system of internal controls and an internal audit function, although the latter will not be able to function fully until the non-executive directors appointed to the Board in June 2022 are in post. The Board has determined its risk appetite for the organisation. In developing its governance arrangements, the Bank's management told us it is seeking to bring in the best practice from both private and public backgrounds. The Framework Document requires the Bank to comply with the UK Corporate Governance Code.

2.16 As part of these arrangements, the Bank has been developing internal structures and processes governing its investment decisions. In the first months after launch, the Bank entered into three deals which were approved by ministers through the pre-existing HM Treasury's decision-making processes (Figure 16). The Bank has appointed experienced individuals to lead the Bank's investment work and it is developing approaches for approving deals for its different investment strands which share features we have seen in our past work on similar government interventions, and which are common in private investment settings.

2.17 Recruiting and retaining people with the right skills is vital to the success of the Bank. The Bank is headquartered in Leeds with a small satellite office in London. At April 2022, the Bank had increased its staff numbers to 127, from six at launch; 73% of these are based in Leeds (**Figure 8**).[13] The Bank is still undergoing a substantial recruitment programme, and 94% of its employees are temporary or on secondment. The Bank told us that it is closely linking its capability to its activities; it is intentionally moderating its equity deals activity until it has people with the relevant skills in-house. It also made clear to us that it will not invest in projects if it does not have the right skills to do so. In December 2021, HM Treasury approved the Bank's remuneration package for five roles within the senior executive; individuals to fill these roles were announced in June 2022 and will take up post in "summer 2022". In April 2022 the Bank received HM Treasury approval for its proposed remuneration package for other staff. The Bank has commissioned and received external benchmarking work to inform its development of remuneration for both senior management and other staff. The Bank's management told us it is conscious of the need to set pay with the wider public sector context in mind, while avoiding setting it so low that it cannot recruit people with the skills it needs to succeed.

2.18 The Bank is currently reliant on a number of HM Treasury IT systems for HR and finance administration, and on using bespoke spreadsheets to manage deal flow and credit risk. This relatively fragmented approach means that the systems are not directly suited to the Bank's long-term needs and increases its operational risks. The Bank recognises that it needs to implement its own IT systems, particularly as it increases in scale. The Bank told us it is undertaking a project to deliver this transition, which it expects to complete by December 2023.

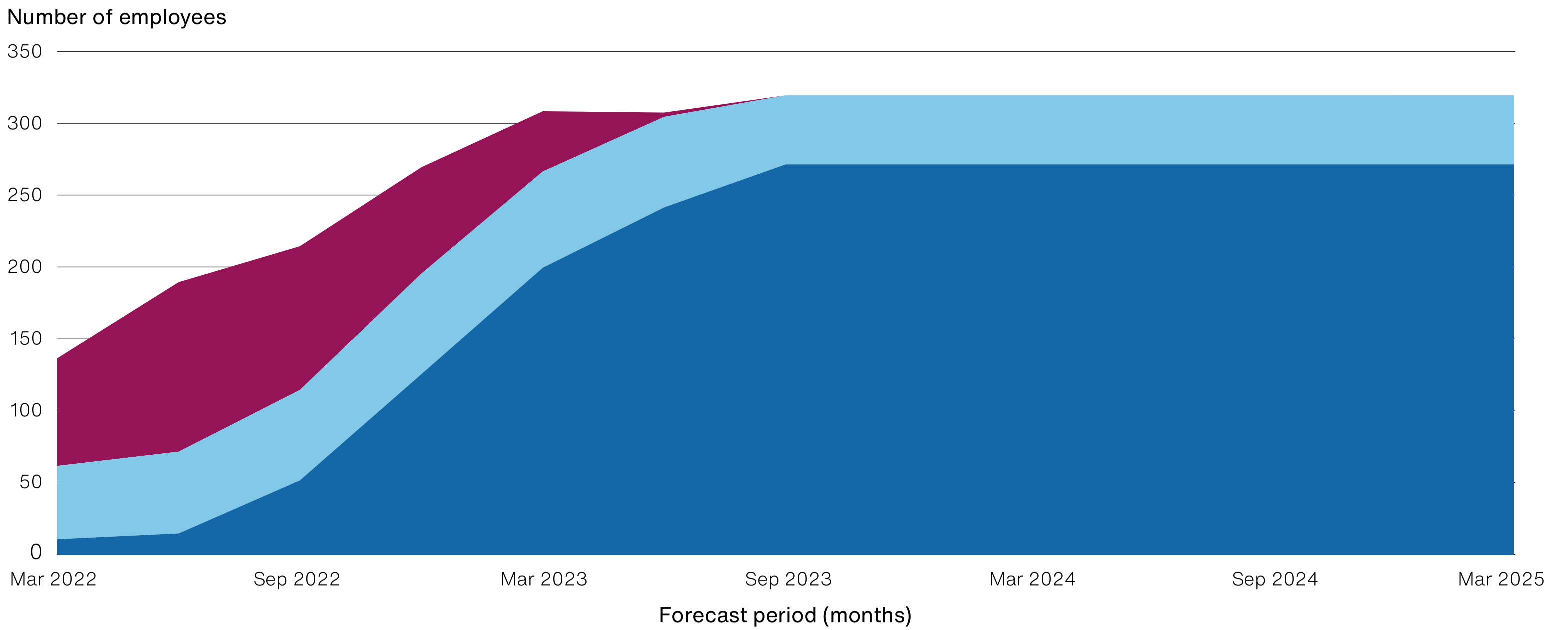
2.19 The Bank has made forecasts of operating costs as part of its business planning process. These estimates carry uncertainty because at the time of our fieldwork the Bank had not yet settled on its strategy, which will strongly influence the operational resource it needs. Our analysis of the Bank's budget projections suggests that the Bank, compared with the experiences of the Green Investment Bank and the British Business Bank, will have relatively higher operating costs per employee in its first full year but will be middle-ranking in the subsequent two years (**Figure 9** on pages 32 and 33). While these interventions operate in similar sectors, issuing loans and guarantees, these comparators should only be seen as indicative. The comparator organisations have different policy objectives, and delivery models – for example, the British Business Bank focuses on small and medium-sized enterprises and operates through third-party lenders, and the Green Investment Bank did not issue guarantees. It is also worth noting that the Bank is building out capabilities while operating which will add to its operating costs. This might explain the difference in costs between the organisations in the first full financial year, however, the Bank has not separately identified these costs in its forecasts, so we cannot be sure on the impact of this.

13 The total of 127 includes permanent employees and temporary staff (secondees and contractors).

Figure 8

The UK Infrastructure Bank's (the Bank's) forecast of staff numbers in January 2022, for the period March 2022 to March 2025

The Bank expects to have 320 staff in autumn 2023, after it reaches 'steady state'



	Mar 2022	Sep 2022	Mar 2023	Sep 2023	Mar 2024	Sep 2024	Mar 2025
Interim	75	100	42	0	0	0	0
Secondees	51	63	67	48	48	48	48
Permanent	11	52	200	272	272	272	272
Total	**137**	**215**	**309**	**320**	**320**	**320**	**320**

Notes

1 Staff numbers represent full-time equivalents.

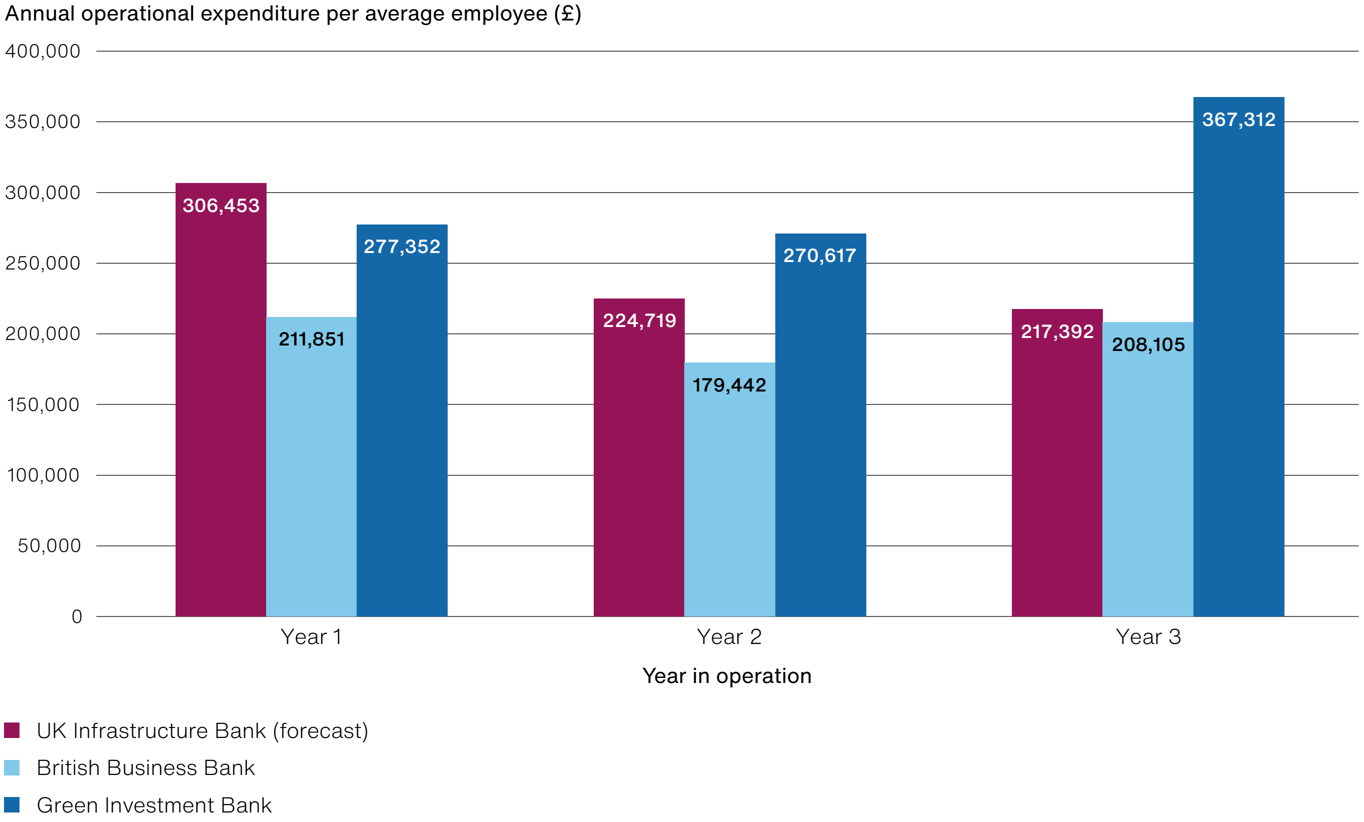
2 The Bank expects 'steady state' to being in summer 2023.

Source: National Audit Office analysis of the UK Infrastructure Bank's forecasts

Figure 9

Comparison of forecast operating expenditure per employee to 2024-25 for the UK Infrastructure Bank (the Bank), with operating expenditure per employee for the first three full years of operation of the British Business Bank and the Green Investment Bank

Our analysis of the Bank's projections suggests that the Bank, compared with the experiences of the Green Investment Bank and the British Business Bank, will have relatively higher operating costs per employee in its first full year but will be middle-ranking in the subsequent two years



Year in operation	UK Infrastructure Bank (Forecast numbers)		British Business Bank		Green Investment Bank	
	Operating expenditure in £m	Average number of employees	Operating expenditure in £m	Average number of employees	Operating expenditure in £m	Average number of employees
Year 1	68.3	223	22.7	107	23.9	86
Year 2	70.7	315	25.8	144	27.6	102
Year 3	69.6	320	53.7	258	43.7	119

Figure 9 *continued*

Comparison of forecast operating expenditure per employee to 2024-25 for the UK Infrastructure Bank (the Bank), with operating expenditure per employee for the first three full years of operation of the British Business Bank and the Green Investment Bank

Notes

1 The three organisations have a 31 March accounting year end. Years 1, 2 and 3 are the first three full accounting years for each organisation. The period between the organisation going live, and the next March is not included in this chart. In the case of UK Infrastructure Bank this is the period between June 2021 and March 2022.

2 The figures for the UK Infrastructure Bank are forecast numbers for the period between 2022-23 and 2024-25. Figures for the Green Investment Bank are actuals for the period between 2013-14 and 2015-16 in 2020-21 prices. Figures for the British Business Bank are actuals for the period between 2015-16 and 2017-18 in 2020-21 prices.

3 Staff numbers represent average Full Time Equivalent (FTE).

Source: National Audit Office analysis of the UK Infrastructure Bank's documents, Green Investment Bank's Annual Reports and Accounts and British Business Bank's Annual Reports and Accounts

2.20 The Bank is strengthening its understanding of what costs should look like, for example through the externally commissioned benchmarking of pay and through a market assessment of part of its IT procurement. When it reaches a more mature operational stage the Bank can benchmark its costs for the whole organisation using suitable comparators, something the British Business Bank has done.[14] We have not seen evidence of the Bank planning to benchmark the costs of individual support functions, such IT, finance, human resources and estates costs.

2.21 In June 2022, the Bank published its first strategic plan after HM Treasury set a requirement that the Bank should produce a strategic plan within 12 months of launch. The Framework Document requires the strategic plan to be reviewed and updated annually. HM Treasury has also specified elements that the strategic plan should cover, including financial performance metrics; how the Bank will deliver its strategic objectives and the associated risks and opportunities; how it will organise its activities around the operating and investment principles; and its plan for how it will engage formally and informally with stakeholders. HM Treasury also requires to the Bank to develop its own environmental and social governance (ESG) strategy, to consider the impacts of its investments and its assessment and implementation approach in further detail. The Bank told us it plans to develop its ESG policy and framework up to June 2023.

14 Comptroller and Auditor General, *The British Business Bank*, Session 2019-20, HC 21, National Audit Office, January 2020, paragraph 1.12, page 10.

2.22 Following the publication of the government's Net Zero Strategy in October 2021, for each core sector within the strategy, the Bank mapped the government's policy intention to the investment need, and when investment might have maximum impact. The Bank tested its investment hypotheses in a range of focus groups and in bilateral discussions with representatives from banks, investors, borrowers and relevant government departments. The Bank then carried out analysis on how these investments could be delivered using its available capital. This analysis informs the assessment in its strategic plan, which sets out where it considers its investment opportunities lie. It will extend this analysis to cover the regional growth target, and will also reflect the experience gained from making investments.

2.23 Prior to the publication of the Bank's strategic plan, the Chancellor of the Exchequer wrote to the Bank's chief executive officer to provide a guidance on the government's policy priorities for the Bank and to provide additional clarity on its mandate. This included the role the Bank can play in reducing the UK's dependency on fossil fuels following Russia's invasion of Ukraine. It also stated that the Bank should not ordinarily support projects which are predominantly social or cultural infrastructure, including housing, schools, health facilities, courts and prison facilities.

Remaining gaps at the time of our report

2.24 There are some elements of the Bank's set-up still to complete.

- While the Bank's senior executive team is in post only the chair, chief executive officer and around 10 employees are permanent staff, the rest are temporary posts or on secondment. Appointments for the remaining permanent executive Board members were announced in June but they were not yet in post. The recruitment process for all other grades is still ongoing.
- Since the four non-executive directors were not in post at June 2022, the Bank's audit and risk committee and its remuneration committee were also not in place at that time. Without these, the Bank is not able to comply with some aspects of the UK Governance Code. The Bank expects all Board committees to be operational by September 2022.
- The Bank does not currently have full powers to lend to local authorities. HM Treasury introduced a Bill in May 2022 which when enacted would grant the Bank these powers.
- The Bank is currently unable to issue new guarantees in its own name as market acceptance is typically linked to guarantees being sovereign-backed using HM Treasury's balance sheet. The Bank is working on a solution to ensure the guarantees are backed by HM Treasury while maintaining its operational independence.
- If the Bank wishes to borrow from private markets, any debt instruments it issues will need a credit rating. The Bank told us that there are limited scenarios where borrowing from the private markets represents value for money.

2.25 The Bank has not yet begun to provide its advisory function of support to local authorities and other project sponsors. This was an intentional HM Treasury decision to phase in the function as the Bank's establishment developed. The Bank expects the advisory function to be fully operational during 2023. The Bank is deliberately not marketing this function until it is capable of delivering it.

2.26 The Bank may not be fully open for business for another six to 12 months. The Bank has been able to enter into deals but these were largely possible through existing government processes. It will take longer for the Bank's processes to fully embed and reach maturity. The Bank's view is that it will be in 'steady state' operational phase when legislation is enacted to give it full powers.

Deals and pipeline

2.27 Ministers wanted the Bank to launch quickly and achieve some early deals. Part of the rationale was to start developing a pipeline of projects. HM Treasury told us that, in planning the Bank, it wanted to avoid undertaking considerable preparatory work setting up the Bank before starting to build its pipeline, which would slow the pace of investments. At the end of May 2022, the Bank had made five deals amounting to approximately £311.5 million (**Figure 10** on pages 36 and 37). All five deals were loans.

2.28 The Bank has sought to proceed with deals at a pace it is comfortable with, while completing the development of its internal controls and processes, including research skills. Of the Bank's deals so far, all were loans and several came from existing proposals being considered elsewhere in government. To varying degrees these early deals could have been done within existing structures and the Bank has not begun to make the distinct types of deals that the organisation was created for. The Bank's view is that while the loans made to the two local authorities appear the same as loans offered by the Public Works Loans Board, the structure is different with a higher degree of scrutiny required. HM Treasury considers these deals would not have been agreed without the Bank's involvement. The Bank has received some higher-risk equity investment proposals but has decided not to take these forward at this stage as it continues to build its internal expertise and market knowledge, which will take some time to develop. It is capable of making equity fund investments where others manage the investment.

Figure 10

Summary of the UK Infrastructure Bank's (the Bank's) deals to May 2022

The Bank entered into five deals between June 2021 and May 2022[1]

Project name	South Bank Quay	Gigaclear	NextEnergy	A45 Sprint Bus Route	Fibrus
Description	A 450-metre quay to service the offshore wind sector to transform part of the former Redcar Steelworks site along the River Tees	Providing high-capacity broadband to a quarter of a million rural homes, through the internet provider Gigaclear	Provide financing to two major subsidy-free solar farms in the UK, which will help catalyse a new £500 million fund with NextEnergy Capital	Provide support to create a new Sprint Bus Route to increase connectivity between residential and employment areas	Delivering high-capacity broadband to rural homes and businesses across Northern Ireland
Date deal was publicly announced	25 October 2021	18 December 2021	1 December 2021	15 March 2022	1 April 2022
The Bank's financing contribution	£107 million	£100 million	£44.5 million[2]	£10 million	£50 million
The Bank's role	Sole lender to the Tees Valley Combined Authority (TVCA)	Co-lender	Co-lender	Sole lender to West Midlands Combined Authority (WMCA)[3]	Co-lender
Financing type	Local authority loan[4]	Senior debt loan	Senior and junior debt loan[2]	Local authority loan[3,4]	Senior debt loan
Number of co-investors	0	5	1	0	5
Location	North-East England	South West, Midlands and South East	UK-wide	A45 between Birmingham City Centre, Birmingham Airport and Solihull	Northern Ireland
Sector	Energy	Digital infrastructure	Energy	Transport	Digital infrastructure
Objective type[5]	Climate change and regional growth	Regional growth	Climate change and regional growth	Climate change and regional growth	Regional growth

Figure 10 *continued*
Summary of the UK Infrastructure Bank's (the Bank's) deals to May 2022

Notes

1 This only covers deals that have reached financial close, defined as the point where all project and financing agreements have been signed and financing can be drawn down to commence the project. The Bank announced a sixth deal in May, but this had not reached financial close and is therefore not included in this table.

2 The Bank plans to invest up to £250 million into the fund, half of the total target fund size, on a match-funding basis with the private sector.

3 The A45 Sprint Bus deal involves no private sector investors/lenders but WMCA received additional funding from other parts of government.

4 The South Bank Quay and A45 Sprint Bus Route deals are funded through borrowing via the Public Works Loan Board at the Bank's rate, with the loans then transferring to the Bank. This process will remain in place until the Bank is granted powers to lend to local authorities through legislation.

5 The Bank has two strategic objectives: (1) to help tackle climate change, particularly meeting the government's net zero emissions target by 2050 and (2) to support regional and local economic growth through better connectivity, opportunities for new jobs and higher levels of productivity.

Source: National Audit Office analysis of the UK Infrastructure Bank's documents

2.29 At April 2022, the Bank's pipeline consisted of 44 potential deals (**Figure 11** overleaf). The Bank estimates the total value of the pipeline at around £5 billion although it may not go ahead with all of these potential deals. Around half of the pipeline relates to clean energy projects (**Figure 12** overleaf and **Figure 13** on page 39). The pipeline has been developed through a range of sources including: enquiries through the Bank's website; existing contacts (reactive); and market engagement (proactive). Most prospective deals have originated reactively, where investors have sought out support from the Bank. Eventually, the Bank aims to be more proactive as it gains a better understanding, through its market engagement, of the areas which require investment. At maturity, the Bank aspires to be aware of every major infrastructure deal that goes to market, regardless of whether or not it decides to invest.

Figure 11

The UK Infrastructure Bank's (the Bank's) project enquiries and investment pipeline at April 2022

The Bank had a pipeline of 44 potential deals as at April 2022

Project status	Number of proposals
Rejected[1]	209
Inactive[2]	154
Preliminary stage[3]	20
Pipeline	44
Deals closed	5
Total project proposals	432

Of the 44 proposals in the pipeline

Status	Details	Number of proposals in pipeline
Live	Currently undergoing due diligence	3
Short	Financial close forecast within the next 12 months	12
Medium	Financial close forecast within the next 12–24 months	9
Long	Financial close forecast within the next 24–36 months	20

Notes

1 Rejected projects are those that do not meet the Bank's objectives. The project sponsor has received communication that the project has been declined.

2 Inactive projects include those for which the Bank has requested additional information and is awaiting a response.

3 Preliminary stage projects include those that are at an early engagement stage with an unknown financial close date.

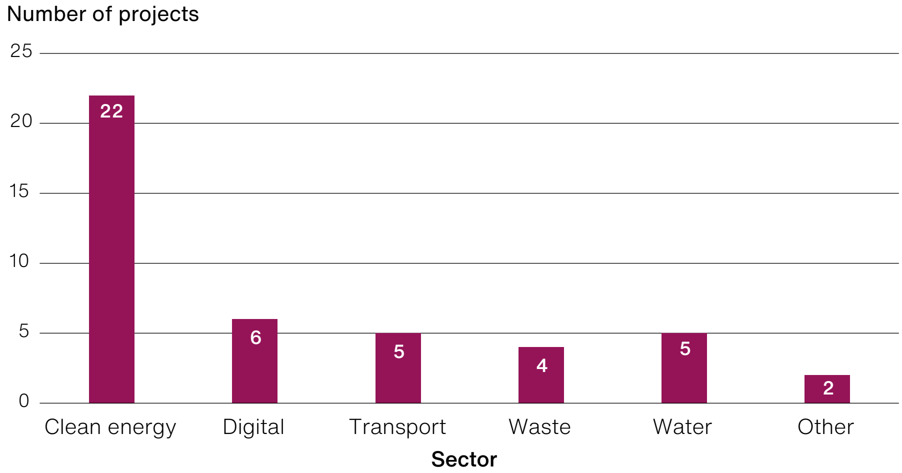
4 Financial close is the point where all project and financing agreements have been signed and financing can be drawn down to commence the project.

Source: National Audit Office analysis of the UK Infrastructure Bank's documents

Figure 12

Number of projects in the UK Infrastructure Bank's (the Bank's) investment pipeline by sector, April 2022

At the end of April 2022, the Bank had 44 projects in its pipeline, of which 50% were in the clean energy sector[1]



Note

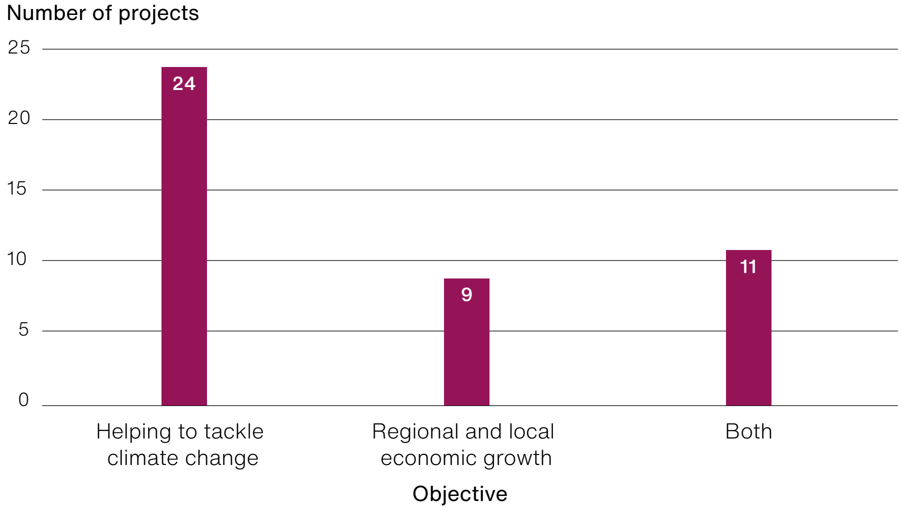
1 The 'other' category includes projects that span multiple sectors, without enough information to determine if any single sector is dominant.

Source: National Audit Office analysis of the UK Infrastructure Bank's documents

Figure 13

Number of projects in UK Infrastructure Bank's (the Bank's) pipeline by objective, April 2022

At the end of April 2022, most projects in the Bank's pipeline were targeted towards the Bank's helping to tackle climate change objective[1]



Note

1 The Bank has two strategic objectives: (1) to help tackle climate change, particularly meeting the government's net zero emissions target by 2050 and (2) to support regional and local economic growth through better connectivity, opportunities for new jobs and higher levels of productivity.

Source: National Audit Office analysis of the UK Infrastructure Bank's documents

Part Three

Development of the Bank and future challenges

3.1 This Part considers the challenges that the UK Infrastructure Bank (the Bank) faces in its future development, and its actions and plans to mitigate the risks that these challenges present. It looks at where the Bank will invest and how, the development of its advisory function, and how it plans to collect and use performance and financial information to inform its decisions and demonstrate value for money.

3.2 The Bank has been set up with substantial resources, and it has potential to achieve and facilitate substantial benefits to the economy and the environment. To deliver on this potential, it needs to:

- develop a clear view of where the Bank's support is most needed and where it can add most value, informed by performance measurement and evaluation of its activities;
- build and maintain a range of good investment opportunities, in an environment where macroeconomic factors outside the Bank's control strongly influence outcomes. For example, supply chain pressures and cost increases may adversely affect potential benefits from projects;
- invest in projects with potential to make a positive rate of return and achieve the Bank's objectives, while managing potential risks to value for money and reputational risks in an investment environment where the taxpayer's money is at stake;
- strike an appropriate balance between its objectives, operating and investment principles, and between ambition and risk; and
- balance the need to recruit people with the right types of skills, particularly in a tight labour market, with the requirement to demonstrate that it is operating cost-effectively.

The rest of this Part explores these issues in more detail.

Continuing the build-out of the organisation

3.3 The Bank has a series of tasks to complete over the coming years before the organisation is at 'steady state'. There are several steps the Bank needs to take before becoming fully operational, which the Bank recognises. They include:

- recruitment of permanent staff at all levels, which it can influence through its pay and reward offer, but which is also affected by labour market conditions. This includes having in post the full complement of non-executive directors, which is required to establish governance structures such as an audit and risk committee;
- creating its own corporate functions, including a financial management system; and
- developing its systems and processes to help it identify and manage investments.

Advisory function and stakeholder engagement

3.4 In addition to providing finance to local government projects, the Bank will perform an advisory role supporting local authorities to develop and finance infrastructure projects. It intends to: provide greater scrutiny of projects to improve their quality and value for money; offer advice and support to local actors to help them deliver their objectives; and act as a convenor, bringing together local actors for collaborative projects and aggregating projects together where appropriate.

3.5 The mandate to establish this advisory function is both broad and challenging given the wide-ranging and complex nature of local government infrastructure needs. The advisory function remains in its early stages as the Bank is still assessing where it can add the most value. The Bank told us it expects demand for its advisory function to be significant but that it cannot support all local authorities. It told us it will prioritise support to a subset of authorities, with the aim of spreading best practice and developing models that can be shared and replicated across local government.

3.6 The Bank has begun engagement with key stakeholders including other existing advisory functions such as Local Partnerships. The Bank is still working through important questions including how the advisory function will be funded, where it can add value, what internal recruitment will be needed, how it will allocate its support fairly and consistently across projects and how it will measure its performance. The Bank will also need to set out to local authorities a clear plan of engagement so that they understand where and when the Bank can provide support. The Bank has not set a go-live date for the advisory function.

3.7 Bringing public and private stakeholders together will require the Bank to plan and undertake its stakeholder engagement effectively. The Framework Document requires the Bank to include a description of how it intends to engage informally or formally with stakeholders in its day-to-day operations in its strategic plan.

3.8 The Bank has adopted a three-phase approach to communications and stakeholder engagement. Phase one (June 2021 to December 2021) laid the foundations for engaging with stakeholders, identifying strategic questions and testing the Bank's draft strategy informally with some key stakeholders. Its current (second) phase, to June 2022, focused on building relationships and preparing ground ahead of the strategic plan. The Bank envisages approaching the third phase as "an investor who engages broadly and welcomes ideas from the market while also providing leadership in some key sectors".

Managing risks and operational independence

3.9 The nature of the Bank's activities – whether investing through equity, loans or guarantees – exposes the taxpayer to losses. The potential for risks materialising, for example construction risks at the outset of infrastructure projects, can deter private investors and is a key motivation for creating the Bank. Once the Bank has made an investment it is important that it manages its balance sheet exposure, for example the risk of investments failing or loans not being repaid. This exposure could be considerable, given up to £22 billion of investments and guarantees that the Bank is able to make and issue; it will need the correct skills to manage these risks effectively. The Bank also faces reputational risks relating to the nature of the private investors that it invests alongside.

3.10 The Framework Document and Financial Framework specify clearly the respective responsibilities of the Bank and HM Treasury. The Bank's operating principles include independence over its day-to-day activities, including delegated authority to make investment decisions. The exceptions will be where HM Treasury approval is required for investments above authority limits (see Appendix Three, Figure 15), or for "novel, contentious or repercussive" transactions; the latter of which will also require the Bank's Board's approval. Operational independence improves credibility with the market by reducing uncertainty associated with political influence over investment decisions. This must not be at the expense of accountability. The Bank's accounting officer is responsible for the value for money of the Bank's decisions.

3.11 Before the Bank enters into any deal, the project is scrutinised via its five-gate process for investment decision-making.[15] This process draws in support from functions across the Bank at different stages and appears fit for purpose, with similarities to processes we have seen in other contexts, for example the Green Investment Bank. However, the process will not be completely developed until the Bank's Board is fully in post. The Bank's process is also relatively untested as it has been refined following the first three deals as the Bank launched a lessons learned exercise.

15 The five-gate process includes: filtering out non-investable projects, evaluation, review by the Early Engagement Committee, review and approval by the Investment Committee, and signing off on the deal.

3.12 The Bank's investment process includes due diligence to assess whether each investment is likely to meet the Bank's objectives and legal obligations and constitutes an acceptable risk. Currently the Bank outsources some of its due diligence work to advisers. It reviews this advice and uses it to help determine whether to progress a deal. As the Bank grows and moves towards considering higher-risk equity investment proposals (paragraph 2.28), due diligence will become an increasingly intensive part of the investment process, with associated cost and resourcing considerations. The Bank will need to explore which due diligence functions, if any, will be undertaken in-house and we have not seen any plans on how it will do this.

Targeting activities

Assessing needs and demand

3.13 The Bank's additionality operating principle requires it to prioritise investments where there is an undersupply of private capital. This means that the Bank should not invest at the expense of private sector investment (crowding-out); its investment should be in addition to that private investment (crowding-in) or when no appetite exists. Developing a clear, detailed and up-to-date view of where infrastructure investment needs are greatest is therefore essential.

3.14 HM Treasury's pre-launch analysis of the intervention need was high-level, drawing on existing analysis that others, particularly the National Infrastructure Commission and Vivid Economics, had prepared for different purposes. By comparison, the Department for Business, Energy & Industrial Strategy (BEIS) commissioned Vivid Economics to analyse the green finance sector and where the Green Investment Bank could add most value before it launched in 2012. In early 2021, in exploring market needs for the Bank, BEIS commissioned consultants Ricardo to undertake a study to "provide an analysis of market failures (and other barriers) affecting the flow of investment into 'First of a Kind' green technologies and infrastructure in the UK". This study was finalised in June 2021 and expanded slightly to include some relatively more mature technologies such as electric vehicle charging.

3.15 Given the Bank's infancy, its deals to date have been reactive, responding to direct enquires. As it matures, and the flow of projects increases, the Bank expects to start investing on a more proactive basis. The Bank has since conducted market needs analysis, as outlined in paragraph 2.22. The Bank's Impact team, which is responsible for collecting intelligence and undertaking analysis of where needs are most pronounced, is developing an 'Investment Handbook'. This initiative will undertake mapping and gap analysis to identify the areas that most require investment. Over time the 'Investment Handbook' will record where the Bank has previously invested, recording project outputs, and eventually use this to benchmark performance. The Bank has not set a date by when the Investment Handbook will be available.

3.16 The Bank's lending to local authorities is targeted at "high value and strategic projects of at least £5 million". HM Treasury set this level based on the median Public Works Loan Board's loan size in 2019-20. HM Treasury's purpose for this baseline is to avoid the Bank spreading resources too thinly across many smaller interventions, which can incur disproportionate costs for their value. Unlike traditional Public Works Loan Board lending, whereby local authorities can wrap up multiple projects under a single loan application, the Bank's loans are set on an individual project basis. Stakeholders told us that this baseline may exclude smaller authorities who are in most need of the Bank's advice and support, or investable projects that fall short of the £5 million baseline. HM Treasury has also acknowledged this risk. We have not seen detailed analysis assessing what different funding levels, regions and project types are most in need of the Bank's support to local authorities.

3.17 The Bank anticipates achieving a return on equity of 2.6% in 2025-26, within target. Of this, it expects the guarantee portfolio to generate 4.9% from nearly £10 billion of guarantees.[16] As part of its creation, the Bank has taken on the administration and management of existing guarantees under the UK Guarantees Scheme, which in the nine years between 2012 and 2021 facilitated 15 deals totalling £4.2 billion, although the guarantees themselves will remain with HM Treasury. If this trend continues, the Bank may overestimate the role guarantees can play in achieving its return on equity target. The Bank told us its market engagement to date has not indicated significant demand for the Bank's guarantees without the guarantees being underwritten by HM Treasury. The Bank told us that once it has such a marketable guarantee, it will have a better idea of market appetite.

Balancing objectives

3.18 HM Treasury set the Bank high-level strategic objectives as it wants the Bank to operate independently and to decide how to interpret these and develop more detailed objectives. The Framework Document acknowledges the potential for tensions between the strategic objectives. For example, there is a risk that a project could promote local growth but be harmful to the environment. There could also be conflicts between the strategic objectives and the operating principles (see Figure 5), for example an investment offering high financial returns may not deliver any additionality if the market could already provide it.

16 Without the return from guarantees, the forecast return on equity in 2025-26 is -2.3%.

3.19 To manage these potential tensions, as part of its investment decision processes the Bank will assess each project against all its objectives, investment principles and key performance indicators (KPIs).[17] The Framework Document sets out that where an investment is primarily to support its economic growth objective, the Bank will ensure that it does "not do significant harm" against its climate objective. The Bank told us it is still working through what this means in practice. So far, the Bank has entered into two deals (Gigaclear and Fibrus – see Figure 10) that primarily support its economic growth objective. Furthermore, the government is developing a green taxonomy for defining 'green' investments which, when complete, will inform the Bank's investment decisions. Over time this information will offer it a benchmark against which to consider future similar investments.

3.20 In developing its framework for measuring the organisation's performance the Bank will need to be clear what an acceptable range of performance looks like for its objectives and principles, and using these criteria assess whether its performance information confirms that it is balancing its objectives and managing potential tensions. However we have not seen more detailed plans for the Bank to bring together and compare performance metrics at the organisation level in this way. Without this, it will be difficult for the Bank to be confident that it is balancing its objectives and managing potential tensions effectively. We cover this further in paragraph 3.25.

Challenges

3.21 The Bank faces a range of strategic and operational challenges. The viability of the types of projects that the Bank invests in depends on macroeconomic factors, for example the revenues that projects can ultimately generate and factors such as supply chains and cost inflation, and wider economic conditions such as those caused by Russia's invasion of Ukraine. The Bank's ability to attract private finance depends on the same factors, and also financial market conditions such as the levels of cash available to invest. Public sector investment banks are often expected to be counter-cyclical – that is, to invest in markets when others are withdrawing owing to economic circumstances. While the Bank undertakes some scenario and sensitivity analysis covering demand volatility and investment performance as part of its business plan, it does not include wider macroeconomic variables, such as changes in inflation or economic downturns. The Bank is currently working on additional stress-testing as the Financial Framework requires. The Bank also faces the challenge of recruiting people with the right skills, which it can influence through its pay and reward offer but which is also affected by labour market conditions. The Bank recognises these challenges and seeks to mitigate and manage these through its risk management and other organisational processes.

17 See Figure 5 for the objectives and principles. The four KPIs cover: carbon emissions; jobs supported; productivity; and private finance mobilised.

Demonstrating success

Objectives, performance measurement and evaluation

3.22 Performance measurement and evaluation are essential to understanding whether the Bank is performing as intended, for accountability, and for learning what works best to inform future decision-making. Alongside a detailed understanding of investment needs, and a clear view and messaging of what the Bank's distinct offer is, the Bank should have, in line with good practice, a framework which clearly shows where it can best intervene. This type of analysis is important to ensure that the Bank is effectively targeting its investment, and opportunities are not inadvertently overlooked.

3.23 HM Treasury has set one target for the Bank – to produce an annual return on equity in the range 2.5%–4% by the end of the financial year 2025-26. The Bank's return target brings together cost and financial return information, but does not give information on whether the Bank is operating efficiently – for example, returns at the low end of the range could indicate low investment returns, or operational inefficiency, or both. HM Treasury plans to review the Bank's performance in spring 2024. However, beyond the equity target, it has not defined specific criteria by which it would judge the success of the Bank. The Bank told us it will operate to a "triple bottom line", delivering: the financial return target; a positive impact on local growth and net zero; and ensuring its investment brings-in additional private investment (see operating principles in Figure 5).

3.24 The Bank has articulated objectives for 2022-23 in its business plan for the year. Subsequently, in its strategic plan, the Bank outlined high-level performance indicators for measuring performance against its triple bottom line. What we have not seen is the detail of how the Bank will bring this information together with other measures, such as efficiency, to assess performance of the organisation as a whole. As a comparison, we found in our 2020 report on the British Business Bank that it monitors performance against targets set at three levels: 'lower', 'stretch' and 'challenge', to inform the bonus payments made to its senior management.[18] We have not yet seen evidence of the Bank setting success criteria for these indicators, or the detail of the processes it will operate to measure performance. The Bank told us it plans to review how the metrics are performing in the period to March 2023 and beyond.

18 Comptroller and Auditor General, *The British Business Bank*, Session 2019-20, HC 21, National Audit Office, January 2020, paragraph 1.14.

3.25 The Framework Document requires the Bank to publish, within the strategic plan, a set of KPIs by June 2022, and it sets out the Bank's and shareholder representative's general responsibilities for monitoring performance. The Bank is developing an impact framework, which currently includes four KPIs covering carbon emissions, jobs supported, productivity and private finance mobilised. The Bank will use all four KPIs in its appraisal of each potential investment, and in tracking outturns after each investment is made. The Bank has not yet set performance targets for each KPI. The Bank also intends to develop other impact metrics and told us it expects to complete this work by December 2022. It tested some potential additional metrics as part of its first five deals - these included connectivity, alignment with the new green taxonomy and increase in infrastructure capacity, although these are still under consideration. The Bank told us it has begun working out what benchmarks it will use under each metric when assessing investment opportunities, but it has not set a date for completing this work.

3.26 HM Treasury's business case for the Bank did not include a plan to evaluate the impact of the Bank's activities, and there are no specific evaluation requirements for the Bank in the formal shareholder documentation. The Bank has told us that it will undertake evaluations in future and that it will draw together information from various sources, including government datasets and modelling to inform its evaluations. We have not yet seen evidence of formal plans for an evaluation strategy covering the Bank's activities.

3.27 Given that setting up a stand-alone infrastructure bank adds to delivery costs, it is important that the Bank focuses on delivering efficiently and has robust cost information. Good practice guidance recommends bringing together performance and financial information, for example through performance measurement and evaluation, to provide a deeper understanding of cost-effectiveness. Under the Financial Framework, the Bank will forecast costs and income, and the Bank's Board is expected to develop robust cost control processes. HM Treasury will have opportunities to scrutinise and approve forecasts as part of the annual business plan process.

Ambition

3.28 The government describes its vision for the Bank as ambitious. The Bank told us that it aims to attract £2.50 of private capital for each £1 of its own investment, which we previously found the Green Investment Bank had achieved. Government wants the Bank to retain all forms of income that it generates, for the purposes of fully funding itself and recycling profits into new investment, subject to a threshold on retained profits set by HM Treasury. It also wants the Bank to bolster the government's lending to local authorities for large and complex projects through its expertise and scrutiny, and bring public and private stakeholders together to regenerate regions and create new opportunities.

3.29 The Bank's approach to risk is central to delivering this ambition. Taking bigger risks offers the greatest opportunities for genuine change, but has potential consequences for use of public money. Stakeholders we engaged with acknowledged this context but want the Bank to be innovative – taking risks that others cannot or will not, creating markets and plugging investment gaps. Taking too conservative an approach could lead to an 'expensive' institution undertaking activities that other parts of government could do more cost-effectively. The Board has determined its risk appetite for the organisation.

3.30 The Bank plans on building from its early lower-risk deals to considering investment proposals with a much wider range of risk profiles (paragraph 2.28). To establish credibility and add value, another of its operating principles, the Bank will need to develop a clear view of things only it can do, and to build its expertise and reputation around these. It will need to do this through:

- recruiting subject-matter experts;
- developing a strong understanding of where it can add most value;
- developing its reputation through a record of successful investments; and
- effective communication and engagement with market participants.

3.31 The Bank told us that, at the level of individual investments, it has a range of tools available: for example, it could intervene through either debt or guarantees, and it has different types of debt available, for example senior, junior and mezzanine debt. At the organisation level the Bank can, through evaluating its activities, assess which types of intervention work well in different circumstances. This would also give it a structured view of whether it is using the full range of its tools to best effect.

3.32 The Bank recognises that achieving and measuring additionality (see paragraph 3.13) is a major challenge and it has not yet developed a structured approach for doing so. In the meantime it is using 'private finance mobilised' as one of its core KPIs. This measures the amount of private capital the Bank's funding has managed to bring in. However, it does not distinguish between whether this private investment would have taken place without the Bank's intervention – a core component of additionality. Since additionality of government interventions is a widely used measure, development of an evaluation framework will provide the Bank with more information on its additionality and its success in reducing barriers to investment.

Appendix One

Our audit approach

1 This report examines the set-up of the UK Infrastructure Bank (the Bank) and its progress in establishing the appropriate structures and processes to meet HM Treasury's strategic objectives – to help tackle climate change and to support regional and local economic growth. The study also looks at the future challenges the Bank might be facing and how it is preparing for them. The report examines whether:

- HM Treasury has set up the Bank effectively;
- the Bank has made sufficient progress in creating the conditions necessary to deliver its mission; and
- the Bank is preparing itself well for the future challenges that it faces.

2 **Figure 14** overleaf outlines our evaluative criteria. Our evidence base is described in Appendix Two.

Figure 14
Our audit approach

The objective of government

In June 2021, HM Treasury launched the UK Infrastructure Bank (the Bank) to encourage private finance alongside public investment, to achieve two core objectives – helping to tackle climate change, and supporting regional and local economic growth.

The Bank will provide public finance for some infrastructure projects while attracting private finance and replacing European Investment Bank financing. It will also aim to improve the quality of local authority infrastructure projects by scrutinising the proposals and providing support and expertise.

How this will be achieved

HM Treasury has provided the Bank with up to £22 billion of public money through a combination of equity, loans and guarantees to support infrastructure projects. It has asked the Bank to prioritise five sectors: clean energy, transport, digital, water and waste.

Our study

Our report covers the Bank's set-up, the Bank's progress in implementing HM Treasury's vision in terms of establishing structures and processes in order to pursue its objectives, and the future operational and external challenges the Bank may face.

Our evaluative criteria

Has HM Treasury set up the Bank effectively?	Has the Bank made sufficient progress in creating the conditions necessary to deliver its mission?	Is the Bank preparing itself well for the challenges it faces?

Our evidence

(see Appendix Two for details)

We interviewed officials at HM Treasury and the Bank. We reviewed the Outline Business Case and relevant analysis conducted prior to the launch of the Bank.	We interviewed officials at HM Treasury, the Bank, the devolved administrations, and local authorities. We reviewed the Bank's Policy document, Framework Document, strategic plan, Financial Framework and business plan and analysed documents related to the Bank's governance structures and processes.	We interviewed officials at HM Treasury, the Bank, the devolved administrations and local authorities and other stakeholders outside government. We reviewed the Bank's Risk Register and Risk Management Analysis and analysis conducted to identify potential sectors for investment.

Our conclusions

The government wanted to be ambitious in creating the UK Infrastructure Bank, both in the scale of its purpose and the intention that it should start making deals as quickly as possible. Moving at this speed meant some important planning steps were skipped, and many aspects of the Bank's structure and processes were, deliberately, not in place at launch. This is an unusual approach, and HM Treasury took steps to ensure controls existed to protect taxpayers' money. Officials at the Bank, with support from HM Treasury, took a pragmatic approach by progressing new investments at a pace in line with its available resources, while recruiting staff and establishing systems and controls: a trade-off for moving at speed to open the Bank.

The Bank, with HM Treasury support, has worked hard since launch to complete the Bank's set-up. Some elements, particularly its advisory function, remain to be established and it will take time for the Bank to fully mature, so it is too early to say whether the Bank will be a success. The Bank will need to manage a range of operational and external challenges if it is to deliver government's ambition for it. It will need to clearly demonstrate its achievements and that it is justifying the costs of establishing the Bank as a separate institution. Drawing together information on costs and impact will be essential in allowing the Bank to demonstrate value for money. Developing a clear view of where investment is most needed, and an impact framework that shows where the Bank's interventions are most effective, will be vital to its future success.

Source: National Audit Office

Appendix Two

Our evidence base

1 We collected and analysed evidence between November 2021 and April 2022. Our main methods are outlined below:

Document review

2 We reviewed key documents including:

- publicly available information relating to the UK Infrastructure Bank's (Bank's) set-up including the Framework Document;
- HM Treasury's Outline Business Case for the Bank;
- the Bank's Board papers establishing the Bank's governance arrangements and relationship with its shareholder; and
- documents establishing the Bank's finances and its investment capacity.

3 As the Bank is still operating in interim form and developing policies and processes, there are some limitations in our audit regarding the Bank's internal documents. Several documents we reviewed were in draft form and may change before publication. Included in these draft documents is the Bank's strategic plan, which was published in June; the last draft we reviewed for our report was dated May 2022. Our findings, conclusion and recommendations have therefore not drawn, without caveat, on documents which we expected to change before our report was published. The Bank's information that forms part of its annual report and financial statements, including information covering costs and staff numbers, had not been audited at the time of our fieldwork.

Interviews

4 We held interviews with a range of government bodies, including:

- officials at various levels across the Bank, including the chief executive, the chief operating officer, members of the Board and senior management, with responsibilities covering a range of the Bank's investment and other operational activities;
- HM Treasury officials involved in preparing for the Bank's launch;

- officials at the Infrastructure and Projects Authority and the National Infrastructure Commission;
- officials at the Department for Business, Energy & Industrial Strategy, and the Department for Levelling Up, Housing & Communities, to understand how their work links with that of the Bank; and
- officials at the devolved administrations of Scotland and Northern Ireland, and representatives of local authorities, to understand how their roles and activities relate to those of the Bank.

5 We interviewed stakeholders outside of government:

- Environmental groups, including the Committee on Climate Change, the Green Finance Institute and E3G for their views on the Bank's role and development; and
- Officials in the European Investment Bank, to understand where and how it previously intervened in financing infrastructure.

Quantitative analysis

6 We conducted quantitative data analysis:

- on the European Investment Bank's financing to UK projects up to the UK's departure from the EU in 2020, and the Bank's forecast of its own investment levels between 2021 and 2025;
- of the Bank's investment pipeline of projects at April 2022, based on the Bank's reporting dashboard; and
- of the Bank's forecasts of operating costs and staff numbers to 2024-25, and how those compare with actual operating costs and staff numbers of the Green Investment Bank and the British Business Bank in their first three years of operation.

7 We chose to compare operating costs to staff numbers given the availability of data from the Bank, and from comparator organisations. We considered looking at other ratios such as cost to income, or cost to assets under management, as in our British Business Bank review. We considered them unsuitable at this early stage of the Bank's lifecycle – where income and assets under management are not usefully comparable to an organisation that has been trading for several years, and where forecasts are highly uncertain.

8 We drew together summary information on the Bank's first five deals.

Appendix Three

The UK Infrastructure Bank's (the Bank's) investment approval thresholds

Figure 15

UK Infrastructure Bank (the Bank) project approval thresholds

Before agreeing new deals, the Bank's chief executive officer must seek additional approval from either the Board or HM Treasury, depending on the project type and size

Type of financing	Project size requiring Board approval[1,2]	Project size requiring HM Treasury approval[3]
Senior debt	Greater than £100 million	Greater than £500 million
Mezzanine debt	Greater than £50 million	Greater than £250 million
Guarantees	Equal to the limit of the underlying debt type	Equal to the limit of the underlying debt type
Equity	Greater than £25 million	Greater than £125 million
Local authority lending	Greater than £100 million	Greater than £500 million
Novel, contentious or repercussive transactions	(see Note 3)	(see Note 3)
Single name/borrower limit	Greater than £100 million	Greater than £500 million

Notes

1 Projects below these thresholds only require approval from the Bank's chief executive officer (CEO).

2 The Bank's CEO introduced self-imposed sub-level delegation limits requiring Board approval. The imposition of these limits is at the CEO's discretion as the Bank's accounting officer.

3 Projects above these thresholds require both Board and HM Treasury approval. The Bank must seek approval from HM Treasury for any project considered to be novel, contentious or repercussive, regardless of project size.

Source: National Audit Office analysis of the UK Infrastructure Bank's documents

Figure 16

Select milestones related to governance of the Bank and its early deals

Critical governance structures were in place before the early deals were made

Date	Milestone
30 April 2021	The Bank's chair was appointed.
18 May 2021	An interim Bank chief executive officer (CEO) was appointed.
17 June 2021	An interim Bank non-executive director was appointed.
17 June 2021	The Bank was launched in interim form and the Framework Document was published.
28 July 2021	HM Treasury introduced a £5 million delegated authority limit on all the Bank's expenditure.
1 September 2021	A permanent CEO was appointed.
21 September 2021	The Chancellor delegated approval of the Bank's projects to the Economic Secretary to the Treasury.
13 October 2021	The Bank's Investment Committee approved the South Bank Quay deal.
15 October 2021	The Bank's Board approved the South Bank Quay deal.
19 October 2021	The Bank's CEO was appointed as accounting officer (AO) with no delegated authority.
19 October 2021	The Bank's AO approved the South Bank Quay deal.
20 October 2021	HM Treasury ministers approved the South Bank Quay deal.
25 October 2021	The South Bank Quay deal was announced publicly.
27 October 2021	The Bank's Investment Committee approved the NextEnergy deal.
29 October 2021	The Bank's Board approved the NextEnergy deal.
1 November 2021	The Bank's AO approved the NextEnergy deal.
2 November 2021	The Bank's Investment Committee approved the Gigaclear deal.
5 November 2021	The Bank's Board approved the Gigaclear deal.
7 November 2021	The Bank's AO approved the Gigaclear deal.
8 November 2021	HM Treasury ministers approved the NextEnergy deal.
16 November 2021	HM Treasury ministers approved the Gigaclear deal.
1 December 2021	The NextEnergy deal was announced.
2 December 2021	The Economic Secretary to the Treasury approved the Bank's Financial Framework outlining the approval thresholds for projects, giving the Bank's AO delegated authority to approve deals within certain thresholds.
18 December 2021	The Gigaclear deal was announced.
11 February 2022	The Investment Committee approved the Fibrus deal.
23 February 2022	The Investment Committee approved the A45 Sprint Bus Route deal.
4 March 2022	The Bank's AO approved the A45 Sprint Bus Route deal.
15 March 2022	The A45 Sprint Bus Route deal was announced.
23 March 2022	The Bank's AO approved the Fibrus deal.
1 April 2022	The Fibrus deal was announced.

Source: National Audit Office analysis of the UK Infrastructure Bank's documents

CORRECTION SLIP

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Correction One:

In Figure 1 on page 15, we have noticed an error, the right axis shows numbers rounded to 1 decimal place, which means we have 0.1 duplicated, also 0.2 and 0.3. To fix this the report needs to show the numbers as 2 decimal places, so we have zero at the bottom, then 0.05, then 0.10, 0.15, 0.20 and so on up to 0.35 (not to 0.4).

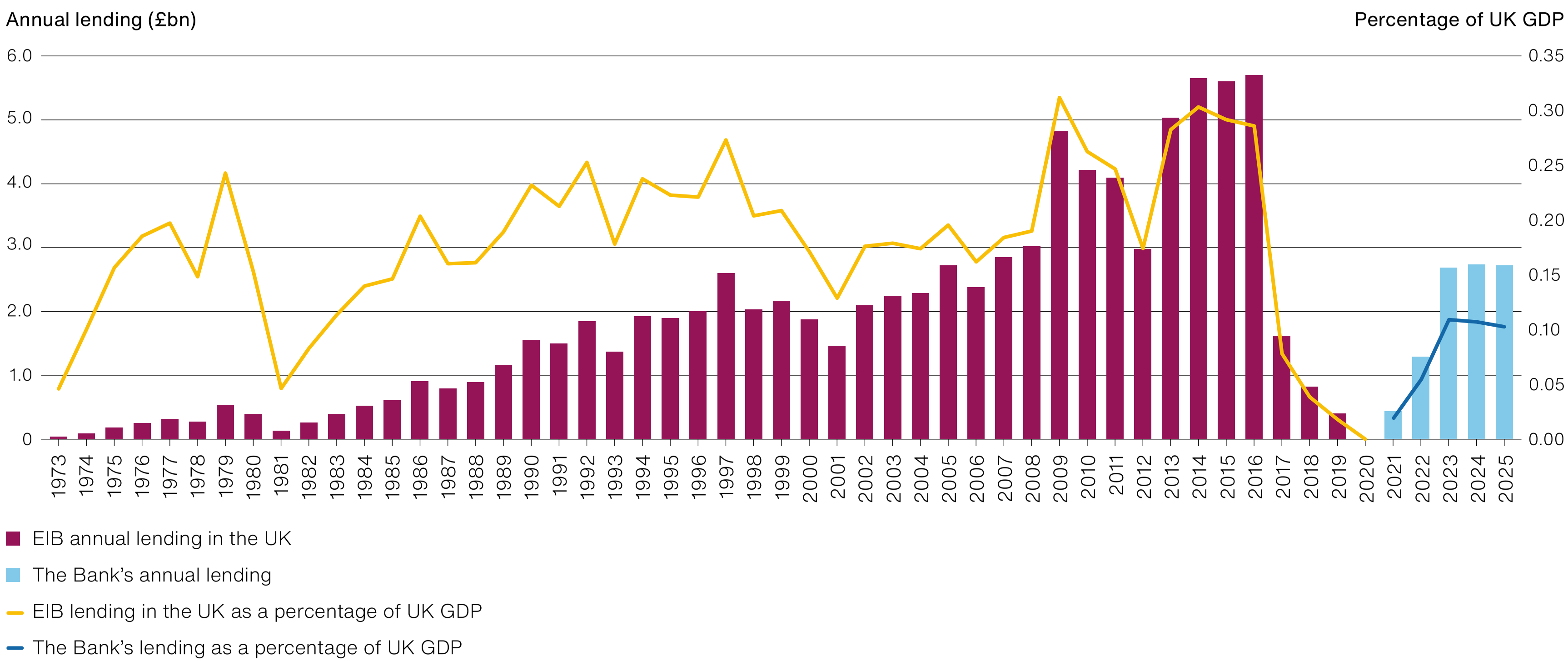
Figure 1 (on the next page) should read:

Date of correction: 5 July 2022

Figure 1

European Investment Bank (EIB) financing to 2019 in the UK, and forecast UK Infrastructure Bank (the Bank) investment from 2021

The Bank is forecast to lend and invest around a half of the financing the EIB previously provided prior to the EU referendum[1,2,3]



Notes

1 EIB figures are on a calendar year basis and represent actual values. The Bank's figures are on a financial year basis and represent forecast values.

2 Figures are exclusive of guarantees.

3 Proportion estimates have been calculated as a proportion of UK Gross Domestic Product (GDP).

Source: Office for Budget Responsibility, and National Audit Office analysis of the UK Infrastructure Bank's data

BACK

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