HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Via email

28 November 2022

Dear Colleagues,

UK Infrastructure Bank Bill: Committee Stage

Thank you for your contributions to the debate at Committee Stage of the UK Infrastructure Bank Bill. As I promised, I'd like to respond to some questions raised in the debate.

Statutory Reviews

I am grateful for many of your thoughtful contributions to the debate on the statutory review clause in the Bill and the time period we have chosen for the first of these statutory reviews. I recognise the importance of this issue and ensuring the Bank is scrutinised adequately. As I committed to in the debate, I will reflect on this further ahead of Report Stage alongside other outstanding areas of interest such as the inclusion of nature-based solutions within the Bank's remit.

While I will reflect on this further, and in view of the discussion at Committee Stage, I thought that it may be helpful – following amendments in the House of Lords – to set out the rationale for why the Bill currently includes a seven year time period before the first statutory review takes place.

As we discussed, infrastructure investments by their nature are long term and it takes time to fully evaluate their effectiveness; for example, the Thames Tideway Tunnel began construction in 2016 and is expected to finish in 2025. We can see this with the investments the Bank has undertaken to date too: the Next Energy investment is over a ten-year period, the CityFibre deal on digital infrastructure is to be completed in 2030 and the Teesworks investment aims to allow the project to make a significant contribution to the UK's 40GW target for offshore wind by 2035. We need to allow a nascent institution time to embed itself and fully establish itself in the market. It would therefore be wrong to conduct a detailed and overly wide-ranging review of the Bank's impact before this can sensibly be assessed.

However, the Government is conducting reviews on particular aspects of the Bank and its activities – for example in the review of its Framework Document which will take place during 2024-25 when a revised Framework Document will be published. There is also a planned strategic review in spring 2024 covering progress and capital position, financial framework implementation, delegation limits, and return on equity targets. On top of this, the Bank will be captured by regular triennial reviews of Arms-Length Bodies led by the Cabinet Office.

In light of these planned reviews, I think it is important to stress that the initial statutory review in 7 years time is by no means the only form of scrutiny that the Bank will be under in this period. These reviews are also a significant burden on the Bank, so we are keen to find the right balance between allowing the Bank to concentrate on delivering on its objectives, and scrutinising its performance. As I committed to in the debate, however, I will reflect further on the points made ahead of Report Stage.

Rate of return target

The Hon. Member for North East Bedfordshire sought clarification on the level of oversight the Government will have of the Bank's investment strategy, and in particular further details on its positive financial returns requirement. As he outlined in the debate, this falls under the Bank's Triple Bottom Line: to achieve policy objectives, crowd-in private capital and generate a positive financial return. We have set out in the Framework Document that the Bank must generate a financial return as part of the company's Operating Principles. As set out in UKIB's Strategic Plan, this has been set at 2.5-4% for the portfolio. This does not include cost of capital as part of the calculation and the target is in nominal terms.

In addition, HM Treasury will keep UKIB's financial performance under review including through Quarterly Shareholder Meetings between HMT and the Bank and reported on publicly by the Bank – including via its Annual Report and Accounts, and through annual updates to its Strategic Plan. The Strategic Review in 2024 will also cover general progress of UKIB and its capital position including return on equity target.

Additionality

The Hon. Member for North East Bedfordshire rightly showed great interest in our approach to measuring the extent to which the Bank has encouraged additional investment, seeking reassurance on the strength of the requirement within the review under clause 9 to measure its success at encouraging additional investment. I can assure the Committee members that additionality is a key principle underpinning the Bank and it is something which the Government takes very seriously. This is demonstrated by the fact that additionality is one of the Bank's core investment principles, as set out in its Framework Document which forms the basis of this point's inclusion in Clause 9.

The Bank has further set out its approach to assessing and measuring these concepts of additionality in its Strategic Plan, which was published at the end of June. Currently, the Bank will assess additionality on a case-by-case basis, assessing the evidence as part of due diligence, and monitoring this through a key performance indicator on the levels of private sector finance which it has crowded in. I hope you can also be reassured by the fact that the Bank has evidently been taking additionality seriously already, as its private sector arm has committed to invest over £900m, which is estimated to potentially unlock over £4.6bn of private finance.

As I outlined in the debate, I am confident that the wording in Clause 9, sitting alongside the obligations in the Framework Document and commitments in the Strategic Plan, provides clear scope for the independent reviewer to explore the issue of additionality in depth.

Deals to date

The Hon. Member for Blaunau Gwent asked for an update on the Bank's deals to date, which I am happy to provide. It has invested across regions and sectors, including every nation of the U.K., with deals completed in digital infrastructure, green transport and renewable energy, demonstrating the breadth of its potential to support the market. It has so far undertaken a total of ten deals, including:

- A £10 million loan to the West Midlands Combined Authority to help finance a Green Bus Route which is projected to unlock nearly 4,000 jobs.
- A £150 million investment supporting the NeuConnect project, a UK-Germany undersea energy link that will lower energy costs and support our energy security.
- £200 million as a cornerstone lender with CityFibre to support the roll out of full fibre broadband to 8 million homes across England and Scotland.

A full list of the Bank's deals in the last financial year was published in their Annual Report and laid in Parliament on Thursday 24 November. More information on deals completed during this financial year can also be found on the UKIB website, and I have provided a full list of the ten deals to date in the annex.

As ever, please don't hesitate to get in touch if you have any questions at UKIBBill@hmtreasury.gov.uk

RT HON ANDREW GRIFFITH MP

Annex – UKIB's deals to date

Project	Description	Sector	Location	Type	Funding (£M)
Tees Valley Combined Authority	New quarry manufacturing area to build next generation of wind turbines	Clean energy	NE England	LA loan	107
NextEnergy	Subsidy free solar	Clean energy	England & Wales	Debt	43
Gigaclear	Ultrafast fibre rollout	Digital	UK-wide	Debt	100
West Midlands Combined Authority	Green bus routes	Transport	West Midlands	LA loan	10
Fibrus	Expansion of fibre rollout	Digital	Northern Ireland	Debt	50
CityFibre	Fibre rollout	Digital	England &Scotland	Debt	200
NeuConnect	Energy transmission pipeline between UK and Germany	Clean Energy	England	Debt	150
NextEnergy ESG Fund	Cornerstone investor in solar fund	Clean Energy	England	Equity	250
Octopus	Alternative energy fund (including energy storage, EV charging)	Clean energy	UK-wide	Equity	100
Digital Infrastructure Investment Partners	Subsequent investment in existing fund	Digital	UK-wide	Equity	100