HM Treasury

UK Infrastructure Bank

Policy Design

March 2021

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Foreword

The Covid-19 pandemic has taken loved ones, separated us from family and brought disruption to our lives. As we emerge from the crisis we must build back better, ensuring that the UK's infrastructure – the critical services and networks we all rely on – are resilient and ready to adapt to the challenges of the future.

Infrastructure connects businesses, communities and people – physically and digitally. It binds the regions and nations of the UK together, creates economic growth and opportunity, and improves people's lives.

In the UK much of our infrastructure is financed, built, operated and maintained by the private sector and we have a well-developed and sophisticated private infrastructure finance market. This is a vital resource in harnessing capital from around the world and supplying the investment we need to level up opportunities across the country, catalyse growth and support the transition to net zero carbon emissions by 2050.

However, these strengths cannot be taken for granted, and the private sector cannot always shoulder the burden alone. That is why we are establishing the UK Infrastructure Bank. Working with the private sector and local government, it will lead a shared mission to accelerate investment in the country's infrastructure.

Its announcement last autumn was widely welcomed. Since then, we have engaged with expert groups on the design of the institution. This document explains in detail how we will equip this new institution with the resources and direction it needs to get going.

The Bank will be an enduring feature of our institutional landscape. Over time, it will lay down a track record to be proud of, win the respect of the market and earn growing financial and operational autonomy. And from the outset, it will be a key component, not just of our infrastructure strategy but of our broader plan for growth.

The new UK Infrastructure Bank will harness the skills of our engineers and the innovation of our architects and designers to make major new projects a reality. It will add expertise and capacity to local governments and help them to realise their plans. And most importantly it will help us to build back better, fairer and greener.

Rishi Sunak, Chancellor of the Exchequer

Executive summary

Key announcements

This document provides further detail on the mandate and design of the new UK Infrastructure Bank, including the rationale for the Bank and its initial areas of focus. It announces the following:

- the initial capital available for the Bank
- the location of the Bank's headquarters
- a local authority lending rate
- next steps in the Bank's development

The case for action

Infrastructure will play a central role in the government's plan for growth. The government is committed to transforming the UK's infrastructure to support its ambitions on tackling climate change, strengthening our economy across the United Kingdom, and helping the country to build back better from the pandemic.

In order to achieve these aims, there is a need to boost investment in our infrastructure and direct investment to new areas by working alongside the private sector. In addition, collaborative work across central and local government will help to provide integrated solutions to our infrastructure needs.

The UK Infrastructure Bank will complement the government's other policy levers, infrastructure bodies such as the National Infrastructure Commission (NIC) and the Infrastructure and Projects Authority (IPA), and partner with the private sector and others to deliver the change and investment needed.

Design of the new institution

The UK Infrastructure Bank will provide leadership to the market in the development of new technologies, crowding-in private capital and managing risk through cornerstone investments and a range of financial tools. It can bolster the government's lending to local government for large and complex projects and help to bring private and public sector stakeholders together to regenerate local areas and create new opportunities.

To give the new Bank a secure footing, it will be established in phases. The government will publish a framework document later in the spring ahead of the Bank's launch setting out further details on its operations.

The Bank will be a long-lasting institution with a high degree of operational independence. From its inception, its core objectives will be to:

1. **help tackle climate change**, particularly meeting our net zero emissions target by 2050;
2. **support regional and local economic growth** through better connectedness, opportunities for new jobs and higher levels of productivity

The focus of the Bank's interventions will evolve over time to adapt to changes in market trends and technology. The government will review the case for broadening the Bank's environmental objectives, such as improving the UK's natural capital, before bringing forward legislation to put the Bank on a statutory footing.

The Bank will be designed in line with the following operating principles: achieving policy objectives via sound banking; partnership; additionality; operational independence; impact and credibility; and flexibility.

In total, **the Bank will have £22 billion of financial capacity to deliver on its objectives**, consisting of £12 billion of equity and debt capital and the ability to issue £10 billion of guarantees. It will draw capital from HM Treasury and be able to borrow from private markets. It will also grow through recycling and retention of return on investments. The government will allocate capital to the Bank in phases in line with its institutional development.

The Bank will focus on intervening where it can make the biggest impact. This means addressing shortfalls in the provision of private finance to make projects happen that would otherwise not have had the necessary support. Acting as a cornerstone investor, it will leverage private sector finance into underdeveloped or challenging markets.

The Bank is an essential element of the government's broader infrastructure strategy, complementing the existing expertise of the Infrastructure and Projects Authority (IPA) and the National Infrastructure Commission, and working alongside the policy levers of central government.

The Bank will be headquartered in Leeds, and will operate across the entire United Kingdom, underpinning the government's mission to level up every part of the UK by strengthening local economies, and helping to reinforce the ties of the Union.

Focus of activity

The Bank will have a broad mandate to offer support across different sectors. It will make a case-by-case assessment of the merits of an individual project. Its primary focus will be on the economic infrastructure sectors covered in the National Infrastructure Strategy, including clean energy, transport, digital, water and waste.[1] In addition, it will be able to lend to university projects that generate a return to support regional and local growth. The Bank will also play an important role in supporting and developing early-stage technologies.

[1] Initially the bank will be using the definition of infrastructure from the Infrastructure (Financial Assistance) Act, including: a) water, electricity, gas, telecommunications, sewerage or other services; b) railway facilities (including rolling stock); roads or other transport facilities; c) health or educational facilities; d) court or prison facilities; and e) housing.

The Bank's local government lending will focus on broadly the same sectors. The Bank will offer advice and expertise to help deliver better projects and support the ambition of local authorities.

Functions and transactions

The Bank will carry out the following functions in support of its core objectives:

- provide a range of financing tools across the capital structure including debt, hybrid products, equity and guarantees to support private infrastructure projects
- provide loans to local authorities for strategic infrastructure projects
- act as a centre of expertise and provide advisory support to projects
- expand institutional investment in UK infrastructure

The Bank will be equipped with a range of financing tools from its inception to help deliver on its mandate. The full range of products will be available to projects in the private sector. The focus in the public sector will be on an improved offer to local and mayoral authorities through a low-cost infrastructure rate. **From the summer, the Bank will offer loans to local authorities at a rate of gilts + 60 bps for high value and strategic projects of at least £5 million.**

The Bank will develop an advisory service for local authorities and other project sponsors to support project development, using government's convening role to bring together different actors for collaborative projects and help to build a pipeline of viable investment opportunities.

The Bank will also help to structure deals to attract international investment and unlock capital from institutions including pension funds.

The government will publish a set of investment principles later in the spring to help the Bank assess whether a project is in scope. The Bank will develop its own metrics and decision-making framework for assessing projects. It will make independent decisions on investments.

The Bank will operate across a broad risk spectrum. Its pricing will reflect the level of risk and ensure that the Bank is compliant with our international obligations on subsidy control and our future domestic regime.

Oversight

The Bank will be owned by the government and will ultimately operate as a separate institutional unit at arm's length and with a high degree of operational independence. HM Treasury will be the sponsoring department.

The Bank will be able to work together with the devolved administrations and with other institutions such as the Scottish National Investment Bank.

The government will bring forward legislation as soon as the parliamentary timetable allows to put it on a statutory footing.

The Bank will begin operating later in spring 2021 in an interim form and then ramp up its activities over the coming months. The government will publish a framework document ahead of the Bank's launch, setting out further detail on governance and the relationship with government.

Chapter 1

The case for action

Context

- The National Infrastructure Strategy, published in November 2020, set out the government's intention to establish a new infrastructure bank for the UK.
- This document provides further detail on the mandate and design of the new UK Infrastructure Bank, including the rationale for the Bank and its initial areas of focus. It announces the following:
    - the initial capital available for the Bank
    - the location of the Bank's headquarters
    - a local authority lending rate
    - next steps in the Bank's development
- HM Treasury will publish a framework document for the Bank to set out its relationship with government later in spring 2021.
- To help create a long-lasting organisation, the government will bring forward legislation as soon as the parliamentary timetable allows to place the Bank on a statutory footing, establishing its full powers and operational independence.

Accelerating the government's policy agenda

1.1 The National Infrastructure Strategy set out the government's ambition for infrastructure investment and policy to boost productivity and growth across the UK and to help put the UK on a path to meeting its net zero target by 2050.

1.2 Infrastructure plays an important role in connecting people – physically or digitally – to opportunities. It is a key factor in determining where firms choose to locate and grow, and people's ability to access resources. It can also help to smooth out regional and national variations which lead to disparities in levels of growth across the country.

1.3 Furthermore, as set out in the Prime Minister's *Ten Point Plan for a Green Industrial Revolution*, developing green infrastructure will put the UK at the forefront of the global mission to tackle climate change. Combined, the UK's core infrastructure – power, heat and transport networks – account for over two-thirds of UK emissions. Decarbonising our infrastructure will be crucial to meeting the target of net zero emissions by 2050.

1.4 Significant public and private investment will be required in the coming years. The latest Infrastructure and Projects Authority (IPA) estimate suggests that almost half of the UK's infrastructure pipeline will be privately financed. The Bank will help to expand and accelerate this pipeline.

1.5 There are significant pools of private finance ready to deploy in UK projects but there can be a mismatch between market appetite and the risk profile of projects. The Bank will crowd in private investment to enable and accelerate the delivery of UK projects. Given the Bank's focus, it will be able to invest in sectors such as sustainable fuels, Carbon Capture Usage and Storage (CCUS), and heat efficiency.

1.6 Private sector investment needs to happen at a pace that allows the government to meet its policy objectives. The new UK Infrastructure Bank will be one way, alongside policy and regulatory support, to underpin that investment.

The institutional focus

1.7 Following departure from the European Union, the UK is no longer a member of the European Investment Bank (EIB) Group. The EIB previously provided support to infrastructure projects and SMEs in the UK, particularly in the utilities, energy, transport and university sectors. Where the EIB provided support in well-financed areas, the government anticipates that the private sector will step in without public sector support. An assessment from Vivid Economics for the NIC[1] showed that a portion of EIB activity crowded out private investment. Respondents to the Infrastructure Finance Review echoed this point.

1.8 However, the EIB played a role in helping some new green technologies, such as offshore wind, to develop a commercial market through its low-cost lending. The threat of climate change and our targets for net zero make the need to support new greener technologies all the more pressing. The UK Infrastructure Bank can play a pivotal role here, crowding in private sector investment in important areas and helping to kick start new sectors. It is also a government priority to ensure that the shift to a green economy happens in a way that distributes investment across the whole country.

1.9 The UK has one of the strongest and most active infrastructure finance markets in the world, with a well-respected existing toolkit of funding and financing solutions. However, the Bank represents a step change in the government's ability to crowd in the private sector to address the economic and climate challenges the country faces.

The role for a public financing institution in stimulating investment in infrastructure

Transitioning to net zero

1.10 Private investment has delivered major benefits for UK infrastructure and will be vital over the coming decades as the UK works towards meeting net zero by

[1] https://nic.org.uk/app/uploads//Vivid-Economics-Final-report-Analysis-of-EIB-and-GIB-projects-050718.pdf

2050. Investment needs to be scaled up and accelerated in markets where there are currently financing shortfalls, to help deliver technologies and projects that will tackle climate change.

1.11 Infrastructure investment is vulnerable to market failure, as it is often complex, large, novel and long-term, with risks around construction, and technological or government policy changes. Without government action there is a risk this market failure will not be addressed and that the private sector lacks the confidence to invest at the speed and scale required.

1.12 The UK Infrastructure Bank can help to bridge the gaps in the market by directing private investment to projects that bring social benefits as well as financial returns. The Bank will convene private investors to co-invest in projects. It will deploy a range of financial products, including first-loss and mezzanine debt which help to crowd in further investment. When market lending conditions are more challenging the Bank will also ensure there is liquidity in the market to maintain momentum and provide resilience.

1.13 The bank will also be able to provide a leadership role working alongside the government and the private sector to develop new markets for new technologies. In this way it can play a development function within UK infrastructure helping the sector evolve to harness the benefits of technological change and meet future challenges.

1.14 The new UK Infrastructure Bank is one component of the government's broader infrastructure strategy, working alongside central government, the NIC and the IPA. The Bank will work as part of that broader strategy to help catalyse the growth of certain sectors or technologies. For example, emerging technologies such as CCUS will need policy and regulatory adaptations as well as financial support.

Addressing regional and national disparities in investment

1.15 Similarly, without targeted and meaningful intervention, the private sector's pattern of regional investment is unlikely to change significantly. This means that areas which have historically enjoyed higher levels of investment are likely to continue to benefit and economic disparities between towns, cities, regions and nations would widen.

1.16 Investment in infrastructure is one way to drive improvements in long-term productivity. The Bank can help crowd in private capital to strengthen regional and local economies. As part of its investment decision making the Bank will consider how it can seek to foster a stronger private sector presence in different regions to achieve sustained growth.

1.17 The Bank can use its financing toolkit to help local and mayoral authorities with their ambitions in delivering local projects, supporting towns and areas that have been left behind and improving the lives of local communities.

1.18 Promoting regional prosperity across the UK is a priority for the government. The Bank is one part of a broad package of complementary UK-wide interventions, including the Levelling Up Fund and the Union Connectivity Review.

Case study of public financing institutions

1.19 An example of where public financing institutions have been able to intervene successfully is offshore wind farms. In this case, financial tools were used by the Green Investment Bank (GIB) and European Investment Bank (EIB) to mitigate risk and crowd in private sector capital.

Box 1.A: Offshore Wind

Interventions by public bodies have successfully helped leverage private finance and help scale up sectors including the offshore wind industry.

In its infancy, there were several barriers to investment in the offshore wind sector that were preventing project developers from securing the necessary finance to manage construction costs. There was a technology risk due to a new more powerful turbine and a high degree of construction risk associated with large projects. There was also a lack of liquidity and workable transaction structures, and a sense of uncertainty about the regulatory environment and future policy.

The role of institutions such as the Green Investment Bank (GIB) and the European Investment Bank (EIB) helped to de-risk the construction phase of projects through cornerstone debt and equity investments. Their presence and expertise in the sector, and role in due diligence and advisory, helped to instil confidence amongst private investors. In addition, this represented a commitment from government and wider policy makers, which helped to mitigate concerns about future policy direction. The introduction of the Contracts for Difference revenue model helped to allay some of the issues on policy, regulatory and wholesale price uncertainty, and the GIB provided advice on the relevant regulations.

Today, offshore wind operations are now raising significant capital investment without the need for public sector financing, as seen in recent market transactions.

Chapter 2

Design of the new institution

2.1 The case for the new UK Infrastructure Bank is clear. The National Infrastructure Commission and respondents to the government's Infrastructure Finance Review recommended the creation of a new bank. The government is working at speed to establish the Bank and it will be launched later in the spring. Before the launch, HM Treasury will publish a framework document outlining further details of the Bank's governance and its relationship with government.

2.2 The design of the institution needs to ensure it works for both public and private sector stakeholders, and so there will be slight differences in the way the Bank works with them, but the core mission will be the same.

Mission statement

The UK Infrastructure Bank will partner with the private sector and local government to increase infrastructure investment to help tackle climate change and promote economic growth across the regions and nations of the United Kingdom.

2.3 The Bank will pursue two central policy objectives through its interventions in the infrastructure market to:

1. **help tackle climate change**, particularly meeting our net zero emissions target by 2050;
2. **support regional and local economic growth** through better connectivity, opportunities for new jobs and higher levels of productivity.

2.4 The Bank will be an ambitious and long-lasting institution and it will require time to build and scale up its activity. The Bank will therefore be developed in three phases. The first phase will establish the Bank in its interim form so that it can begin operating. The second phase will scale up its activity and finalise the operations and business strategy. The final phase will put the Bank on a statutory footing.

2.5 The Bank's core mission is intended to be broad and long-lasting but its focus will evolve over time to adapt to changes in market trends and technology.

2.6 Although the Bank's initial focus will be on climate change mitigation and resilience, the government will review the case for broadening this to include other areas such as improving the UK's natural capital.

Operating principles

2.7 To ensure the success of the Bank, it will be designed along the following operating principles:

- **Achieving policy objectives via sound banking**: 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, whilst 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 under-supply of private sector financing and, by reducing barriers to investment, crowd in private capital.
- **Operational Independence:** the Bank will operate within a strategic framework set out by government but will have operational independence in its day-to-day activity including investment decisions. This will develop in stages with the Bank's establishment.
- **Impact and Credibility:** the Bank will take a long-term approach to its interventions to provide the market with confidence and clear direction.
- **Flexibility:** the Bank will have flexibility to address its mandate, adapting and responding to evolving markets.

Initial capital and financial management

2.8 The Bank will have sufficient capital to ensure it can deliver on its ambitious policy objectives and earn a sustainable return over time. The government will also provide the Bank with flexibilities to enable it to deploy capital in the most efficient way possible. The institution will benefit from further HM Treasury backing as necessary, including the ability to access the benefit of sovereign guarantees where appropriate.

2.9 As the Bank will be classified to the government's balance sheet, it will operate within a framework set by HM Treasury which balances the need for the Bank to operate at scale in a flexible way with the need for the government to manage fiscal risk. The government will set out this framework later in the spring before the Bank is operational. The framework will include details of how the bank should manage risk across its portfolio.

2.10 **The Bank will have £22 billion of financial capacity**. This will consist of:

- **£12 billion of capital to enable lending and investment.** £5 billion will be made available as equity from HM Treasury. The Bank will also be able to borrow up to £7 billion from a government credit facility administered by the Debt Management Office (DMO) and also private markets

- Initial authority to issue up to **£10 billion of guarantees**, as the Bank takes on responsibility for the UK Guarantee Scheme, with more available subject to review

2.11 The Bank will be expected to make a sustainable return over time. The government will set a returns target for the Bank later in the year. The Bank will be able to recycle capital and reinvest returns. This will enable the Bank to scale up its balance sheet over time.

2.12 The Bank will have significant flexibility as to when it draws down its equity capital from government. Further details will be set out in the framework document. The Bank will be able to borrow up to £1.5 billion a year, from either the DMO facility or private markets depending on the best value for money, up to the £7 billion total borrowing limit.

2.13 Of its £12 billion of equity and debt capital, £4 billion will be allocated to local authority lending, providing a significant commitment to this wing of its operations.

2.14 The Bank will be able to issue up to £2.5 billion in guarantees each year, up to the £10 billion total.

2.15 The government will review the Bank's progress and financial performance by Spring 2024, to ensure it has sufficient capital to deliver its ambitions. At this point it is envisaged the Bank will be established in statute, will have closed a number of investments and developed a strong pipeline of further projects. The government intends that the Bank will remain as part of the public sector, fulfilling its role in supporting investment, permanently.

Additionality

2.16 To maximise its impact the Bank will focus on intervening where its 'additionality' to the market is greatest. The Bank will invest to make projects happen that would not have happened otherwise or to bring projects forward to meet net zero or regional and local growth objectives. The bank will limit its exposure to investments that could already be fulfilled by the private sector.

2.17 By providing financing tools and support earlier in an asset's maturity or the lifecycle of a project, the Bank can help to bridge gaps in the private market and to de-risk the project for other investors, therefore crowding in further capital via cornerstone investments. Through the development of new infrastructure markets and assets, the Bank can help to grow the overall UK market which will create new opportunities and returns for private investors.

Institutional landscape

2.18 The UK needs strong, expert institutions to help deliver improvements to our infrastructure. The creation of the UK Infrastructure Bank strengthens the institutional landscape in the UK. The Bank will complement the work of the NIC and the IPA:

- the NIC will continue to provide expert independent assessment of the country's long-term infrastructure needs. As well as making recommendations to government, the NIC will help advise the Bank on which areas it should prioritise to deliver on the government's strategic goals

- the IPA will continue to be the government's centre of expertise for infrastructure and major projects, supporting the successful delivery of all types of major projects
- the UK Infrastructure Bank will provide independent financial support to help deliver the government's policy objectives

2.19 For example, the NIC could identify the need for investment in a particular clean energy technology, which is unlikely to be fulfilled solely through the private sector. Central government would assess the appropriate policy levers to address the challenge with input from technical experts in departments and the IPA. The project may also request financing support from the Bank, which could offer lending through local authorities and the deployment of capital to crowd in private sector support.

2.20 Additionally, the Bank will have a mandate to work closely with departments, other government bodies, local authorities and relevant representative organisations, including (but not restricted to) the British Business Bank, the Local Government Association, Local Partnerships, UK Export Finance, Homes England, and the Scottish National Investment Bank, in the public's interest. It is expected that the Bank will look to establish Memorandums of Understanding (MoU's) with these organisations in due course.

Location and geographic scope

2.21 **The Bank will be headquartered in Leeds**. Leeds is an established financial hub, with access to existing and future talent, and excellent connectivity to the rest of the UK. This makes Leeds an ideal location for the headquarters of the Bank.

2.22 The Bank will operate across the entire United Kingdom, supporting the government's mission to level up every part of the UK by strengthening local economies, and helping to reinforce the ties of the Union.

2.23 Further detail on the Bank's relationship with the devolved administrations is set out in Chapter 5 – Oversight.

Chapter 3

Focus of activity

3.1 Once the Bank is fully established, it will have two main operational arms, focused on private and public sectors.

Private sector arm

3.2 The private sector arm of the Bank will have the mandate to offer loans and make investments that deliver on its central objectives, provide a financial return, and offer good value for the taxpayer. Further details on the bank's investment principles will be published later in the spring. The bank is not designed to bail out companies in distress.

3.3 In the Bank's interim form, its primary focus will be on the economic infrastructure sectors covered in the National Infrastructure Strategy: clean energy, transport, digital, water and waste. In addition, it will be able to lend to universities on projects generating a revenue stream, given their importance in supporting regional and local economic growth.

3.4 Before legislating for the Bank, the government will explore the case for broadening its remit to consider projects from a broader range of sectors.

3.5 Estimates from the Climate Change Committee suggest around £50 billion of additional capital investment a year is required to reach the government's objective on net zero transmissions by 2050.[1] Much of this is expected to be in infrastructure sectors within the mandate of the Bank.

3.6 The Bank is not expected or set up to fill this gap on its own. Instead, it will help bridge this gap by co-investing alongside the private sector, crowding in private investment to support projects across these sectors. The Bank will focus in particular on scaling early-stage technologies that have moved through the research and development phase.

Local government projects

3.7 Lending to local authorities across the UK will play a central role in meeting the Bank's objectives. It is increasingly clear that local actors have a vital role to play in achieving net zero emissions by 2050, for example through local energy solutions, coordinating retrofits or embedding change at the household level. Local and mayoral authorities have influence at a different level to central government and working together effectively will allow greater progress to be made towards the UK's emissions targets.

[1] 'Net Zero: The UK's contribution to stopping global warming', Climate Change Committee (CCC), 2019.

3.8 The Bank will provide local authorities across the UK with access to efficient finance for high value and complex economic infrastructure projects. Additionally, it will provide greater scrutiny of these projects, improving their quality and delivering greater value for money. It will offer advice and support to local actors to help deliver on their objectives. It will also act as a convenor, bringing together local actors for collaborative projects and aggregating projects together where appropriate. This activity will be phased in as the Bank's establishment develops and suitable legislative provision is made.

3.9 It will target broadly the same sectors as the Bank's private activity. The Bank will assess applications independently on a project-by-project basis. Unlike private projects, local authority projects do not need to be revenue generating in themselves but the Bank will seek evidence that the project is financially sound and that the authority has the ability to repay the loan.

3.10 In addition to providing finance, through an advice function (set out below), the Bank will help address any capacity gaps at a local level.

3.11 The government will be actively engaging with local authorities in the next stage of the bank's development.

Chapter 4

Functions and transactions

4.1 The Bank will carry out the following functions in support of its core objectives:

- provide a range of financing tools including debt, hybrid products, equity and guarantees to support private infrastructure projects
- provide loans to local authorities for strategic infrastructure projects
- act as a centre of expertise and provide advisory support to projects
- expand institutional investment in UK infrastructure

Financing tools

4.2 The Bank will have a range of financing tools at its disposal so it can invest across the capital structure and will deploy them according to the needs of the particular project. The Bank will be able to offer the range of products below from inception.

4.3 **Senior debt:** this form of direct lending can be used as a tool to respond to low levels of liquidity in the market or overall capacity issues for larger projects, particularly in their construction phase.

4.4 **Hybrid products**: the Bank can provide mezzanine loan instruments, which could act as a first-loss product sitting between equity and senior debt, or other forms of credit enhancement. These can improve the efficiency of a project's capital structure and the related weighted average cost of capital.

4.5 **Equity:** equity can also be used to address construction risk or to assist in crowding in additional investors. The Bank will be able to make direct equity investments, as well as co-investing through funds.

4.6 **Guarantees:** the Bank will take on the UK Guarantees Scheme (UKGS) to provide guarantees where these are more efficient than the funded products above. The Bank will be able to use UKGS in a flexible way, including considering first-loss guarantees.

4.7 The full range of products above will be available to projects in the private sector. The focus in the public sector will be on an improved offer to local and mayoral authorities. **From the summer, the Bank will offer loans to local authorities**

at a rate of gilts + 60 bps for high value and strategic projects of at least £5 million.[1] Further details on project eligibility will be set out later this year.

Advisory service and centre of expertise

4.8 The Bank will provide advisory services and support to local authorities and other project sponsors on developing and financing projects. This advice function will scale up over time and serve several purposes:

- addressing capacity gaps amongst many local authorities, who may not have the expertise to develop, structure and deliver complex infrastructure projects;
- bringing together different actors from across the public and private sector, providing a forum for sharing knowledge, best practice and expertise;
- building the pipeline of investable infrastructure deals by supporting the structuring of deals and co-ordinating between investors.

Expand institutional investment in UK infrastructure

4.9 The UK has one of the strongest and most active infrastructure finance markets in the world. The Bank can build on this by using its unique position as a centre for expertise for infrastructure financing to enable inward investment.

4.10 The Bank will work closely with pension funds and the institutional investor market to explore opportunities for further expansion of investment into UK infrastructure.

4.11 The Bank will help to structure deals and anchor investment in UK infrastructure projects in a way that crowds in a wider set of investors. The Bank's involvement can help build confidence from international investors new to the UK market.

Investment decisions

4.12 The government will publish a set of investment principles for the Bank later in the spring to further help the bank assess what projects should be in scope. The Bank will make independent investment decisions and will need to develop assessment criteria to decide which investments it will take forward in line with its objectives. This will include environmental impacts. In due course the Bank will publish a document, developed in consultation with HM Treasury, setting out its approach to assessment in pursuit of its mandate.

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[1] Until the bank is established in legislation, it will not have the legal powers to lend directly to local authorities. In the interim period, loans from the Bank to local authorities will use the existing PWLB mechanism. Applications will be made to, scrutinised by, and decided on by the Bank but the DMO will be the institution that makes the loan. Loan contracts during this period will contain an additional clause stating that, following legislation, these loans will be transferred from the DMO to the Bank with appropriate conditions to ensure continuity of the relevant legal rights and obligations.

4.13 The Bank will develop its own in-house methodology for assessing risk, in line with international and domestic best practice.

4.14 The Bank will aim to achieve a broadly balanced portfolio and ensure its investments are reasonably distributed among different sectors to reduce its exposure to risk. In addition, it will seek to achieve a reasonable distribution of investments across different regions and nations of the UK.

Pricing and project size

4.15 Following the end of the transition period on 31 December 2020, the UK has the freedom to design a new domestic subsidy control regime that reflects our strategic interests and particular national circumstances. The Department for Business, Energy & Industrial Strategy (BEIS) is consulting on the design of this new regime.

4.16 The pricing of the Bank's products will reflect the level of risk involved in the investment and ensure compliance with the domestic subsidy control rules and the UK's international obligations. Until the new regime is in place, the Bank will price its products with reference to the current BEIS guidance which reflects, for example, the terms of the EU Trade and Cooperation Agreement (TCA) and World Trade Organisation (WTO) rules.

Chapter 5
Oversight

Independence and accountability

5.1 The Bank will be a long-lasting institution, operating with a high degree of operational independence.

5.2 The Bank will begin operating in an interim form later in spring 2021. The appointment process for the senior leadership team has started with the position of Chair open for applications.

5.3 The Bank's operations and services will develop and grow over time, with appropriate oversight from the government at each stage whilst following best practice as outlined in the UK Corporate Governance Code and HM Treasury's Managing Public Money. Further details on the governance arrangements for the Bank will be set out in the framework document to be published later in the spring.

Relationships across the UK

5.4 The Bank will operate across the whole of the UK, working closely with public and private sectors to support infrastructure investment in every nation. Building strategic relationships with the devolved administrations, local authorities across the UK and relevant institutions such as the Scottish National Investment Bank and Development Bank of Wales, will be a priority.

5.5 Local authorities within England, Scotland and Wales will be able to access the Bank directly. A different set of arrangements will be required in Northern Ireland, given that 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. This lending will only relate to infrastructure projects or other investments that are equivalent to activity usually overseen by local authorities across the other nations of the UK. In the meantime, the Executive will be able to continue to borrow from the National Loans Fund for infrastructure projects. The UK Government will be engaging with representatives from the devolved administrations in the next phase of the Bank's design.

Regulation and powers

5.6 The Bank will have the ability to provide financial assistance for infrastructure projects pursuant to the Infrastructure (Financial Assistance) Act (2012), the Banking Act (2009) and the National Loans Act (1968). The government will bring forward legislation as soon as the parliamentary timetable allows to put the Bank on a statutory footing.

5.7 The Bank will follow relevant legal and regulatory frameworks, recognising any boundaries on the scope of its operations and which may change over the Bank's set up phases. This includes compliance with the Public Sector Equality Duty in the Equality Act 2010 and Section 75 of the Northern Ireland Act 1998.

Annex A
Next steps

The UK Infrastructure Bank will operate within the mandate set by government, with a high degree of operational independence. The government envisages a phased approach to its establishment, focusing initially on the design and set-up of the Bank in an interim form.

Establishing the design of the Bank

The first stage will be to establish the Bank in an interim form:

- **Strategic planning**: including identifying priority areas, the build-up of capability and the budgeting costs
- **Establishment of a governance framework:** setting out appropriate governance and risk management processes for the institution
- **Legal and regulatory arrangements:** fulfilling legal requirements to deliver the Bank's functions and deliver relevant interventions, initially utilising existing capabilities and powers
- **Developing business tools and mechanisms:** to support market engagement with the Bank
- **People and processes:** ensuring the bank has the staff and resources to get going including recruitment of the chair which is already underway
- **Building relationships:** undertaking stakeholder engagement to build strategic partnerships

Operating the Bank in interim form

Once these foundations are in place, the Bank will:

- **Continue recruitment:** following relevant approvals, the Bank will appoint additional members of the board and other staff
- **Operationalise mandate and scope:** setting out further detail on the mandate and scope for the institution, including engagement with market participants and international comparators to help shape the Bank's offer, identifying first target sectors, developing funds and products
- **Finalise organisational design:** finalising design of the institution, and set up core processes around governance, accountability and risk management

- **Finalise Bank policies:** engaging with stakeholders to develop and refine the Bank's approach, including on its advisory function
- **Begin undertaking transactions:** start issuing financial support and expand over time as necessary processes and capabilities are put in place

Operating the Bank in the medium term

The Bank will:

- **Be established in legislation as a statutory body** with consolidated powers to deliver on its mandate, including lending to local authorities;
- **Have strong governance structures in place,** including a framework for monitoring its impact;
- **Undertake a review** by Spring 2024, in which the Bank's progress and financial performance will be reviewed by government, including considering market demand and pipeline, with a view to ensuring it has sufficient resource.
- **In the medium term, the Bank will have full capacity, powers and resources to deliver against its mandate.**

HM Treasury contacts

This document can be downloaded from www.gov.uk

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