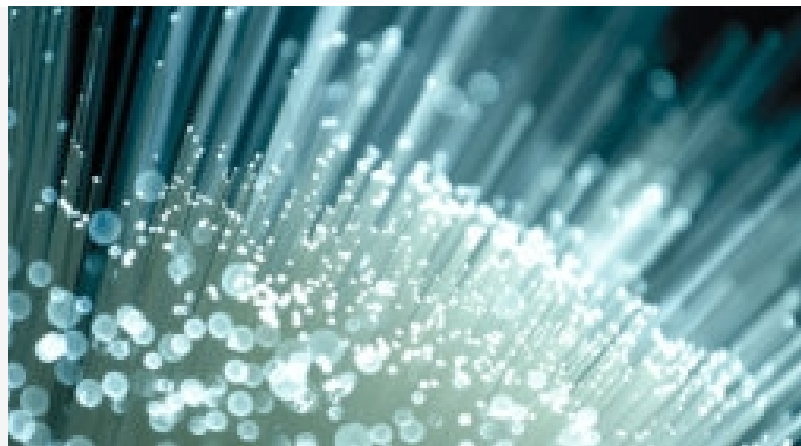


INFRASTRUCTURE INSIGHTS: ONE YEAR FROM INCEPTION, THE UK INFRASTRUCTURE BANK ANNOUNCES ITS FIRST STRATEGIC PLAN

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Since its launch in June 2021 the UK Infrastructure Bank (“UKIB”), has closed seven deals worth £610m, mobilising over £4.2bn of private finance. It also opened two offices in Leeds and London within a year, onboarding 146 staff. The UKIB was set up as a government-owned policy bank to increase infrastructure investment across the United Kingdom, prioritising the clean energy, transport, digital, waste and water sectors.

"The Strategic Plan introduced the UKIB's key operating and investing principles."

STRATEGIC PLAN

To mark its first birthday, and to provide clarity on what the self-styled “niche” investment bank’s broader aims are, the UKIB released its first [Strategic Plan](#) on 23 June 2022 (the “Strategic Plan”), which builds on its January 2022 paper. We discussed that paper earlier this year in our [Infrastructure Insights article](#).

Expanding on its financial offering within its core sectors (with clean energy flagged as the largest sector for future investment), the Strategic Plan introduced the UKIB’s key operating and investing principles and outlines the indicators it will use to measure its impact. We discuss this in further detail below.

OPERATING PRINCIPLES

The UKIB implemented a triple bottom line which it must adhere to when investing: (i) achieve climate change and regional growth policy objectives, (ii) generate a positive financial return (between 2.5% and 4% return on equity) and (iii) attract private investment. It will achieve these goals by operating with the following principles:

- flexibility – the UKIB must demonstrate flexible and tailored approaches to each potential investment;
- impact and credibility – the UKIB must choose its investments with the aim of making the biggest impact on society;
- partnership – the UKIB will collaborate with private and public sector stakeholders to facilitate and increase infrastructure investment; and
- operational independence – despite being wholly owned and backed by HM Treasury, the UKIB has operational independence in its day-to-day activities.

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INVESTMENT PRINCIPLES

The operating principles outlined above feed into the UKIB's investment principles. These state that investments should:

1. help to drive regional and local economic growth or support tackling climate change;
2. be in infrastructure assets or networks, or in new infrastructure technology. The UKIB operates across a range of sectors, but prioritises clean energy, transport, digital, water and waste in particular;
3. be intended to deliver a positive financial return, in line with the UKIB's financial framework; and
4. be expected to crowd-in significant private capital over time.

Private sector projects must meet all four of the investment principles above and local authority projects the first three.

The Strategic Plan outlines that for private financing the UKIB can provide corporate and project finance. It will do this primarily by providing (i) debt funding across the capital structure, (ii) equity funding through external fund managers and eventually through its own direct investments or (iii) the bank will issue sovereign-equivalent guarantees (with the support of HM Treasury) to crowd-in private sector financing on qualifying projects. It expects the minimum size for these debt guarantees to be in excess of £100m. The indicative minimum ticket size for equity and debt funding is £25m.

For local authority assistance, the UKIB has reserved up to £4bn to be lent to local authorities, alongside its local authority advisory function which is hoped will allow them to develop complex infrastructure projects.

MEASURING IMPACT

To ensure these principles and the UKIB's two key objectives – reducing climate change and driving regional growth – are front and centre to its investment approach, the UKIB must self-regulate with reference to key performance indicators. Its KPIs are likely to develop over time as it gets to grips with its core principles and strategy:

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- for its climate change objective, the Relative Greenhouse Gas Emissions (tCO₂e) benchmark will be used. This measures the total carbon dioxide equivalent emissions directly from a project over the lifetime of an investment compared to a counterfactual;
- for its regional growth objective, the number of jobs (both new and maintained jobs) which are directly supported by the bank's investments over the lifetime of our investments will be counted. To measure the extent to which the bank's investments improve productivity, the GVA/hour indicator will be used; and
- the amount of private finance mobilised reflects the UKIB's success with respect to crowding in private sector finance, on an investment by investment basis.

WHAT'S NEXT?

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The UKIB openly acknowledges that it is still a young organisation with room for development and growth over the next few years.

The Strategic Plan states that a key aim is to recruit more permanent employees with a view to reaching a headcount of around 350 staff during 2023-24. This is buoyed by HM Treasury's allocation to the UKIB of an operating expenditure budget of £70.7m in 2022-23 to ensure it can build on its capability objectives. In the Strategic Plan, the UKIB's CEO John Flint has also stated the bank's aim of increasing its number of direct investments and building out its advisory function. The Strategic Plan will be reviewed and updated over the course of 2023.

- October 2021 – £107m loan for the South Bank Quay development in Teesside.
- May 2022 – £100m investment into a new Octopus Investments fund.
- June 2022 – £200m to CityFibre.

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