

# UKIB ESG Framework 2023

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# 1. Purpose of the ESRG Framework

This Framework outlines the UK Infrastructure Bank's (UKIB) approach to Environmental, Social, Resilience and Governance (ESRG)<sup>1</sup> aspects of our investments, including our principles, integration into our investment processes, and our classifications of ESRG risks.

Our mission is to partner with the private sector and local government to increase infrastructure investment to help tackle climate change - particularly the net zero emissions target by 2050 - and to support regional and local economic growth. UKIB's shareholder, HM Treasury, and our Board have both recognised the value in having an ESRG framework and have asked us to implement the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)<sup>2,3</sup>.

ESRG summarises both risks and opportunities for UKIB. We aim to monitor and scrutinise concerns that are 'material' to UKIB's financial returns and impact and thus can ultimately help deliver our strategic objectives. Having a framework for considering ESRG risks and opportunities helps to:

- communicate to the market, our shareholder, and our peers that UKIB is focused on materially important ESRG considerations in the UK
- aid all internal teams in navigating the complexity of the ESG world and be able to highlight steps for managing risks in credible way that makes sense for UKIB.

This framework reflects how UKIB is different to other financial institutions. As a UK taxpayer-owned bank we have a triple bottom line of returns, impact and additionality and ESRG is relevant to all three. We are also focused on new infrastructure assets rather than a portfolio of companies and their ESG ratings; we invest in the UK, protected by its regulation and law; and we work with projects and partners early in their development.

The advantage of the approach outlined in this framework is that we have clear principles to help the bank's partners engage with us and that we can be flexible and focus on the risks that matter to the Bank's objectives and financial return. UKIB's Investment Committee (IC) will stay at the heart of decision making on ESRG risks, informed by prevalent standards in the market. The framework also outlines how we will respond to the development of ESRG standards through the use of a UKIB specific ESRG tool.

The design of the UKIB framework is inspired and informed by a research process, covering practices of peer public financial institutions, the private sector and emerging regulatory frameworks, to identify a proportionate approach fit for UKIB's purposes. The approach will be tested in practice, informed by implementation and develop over time with the Bank. UKIB will review the framework and principles after two years.

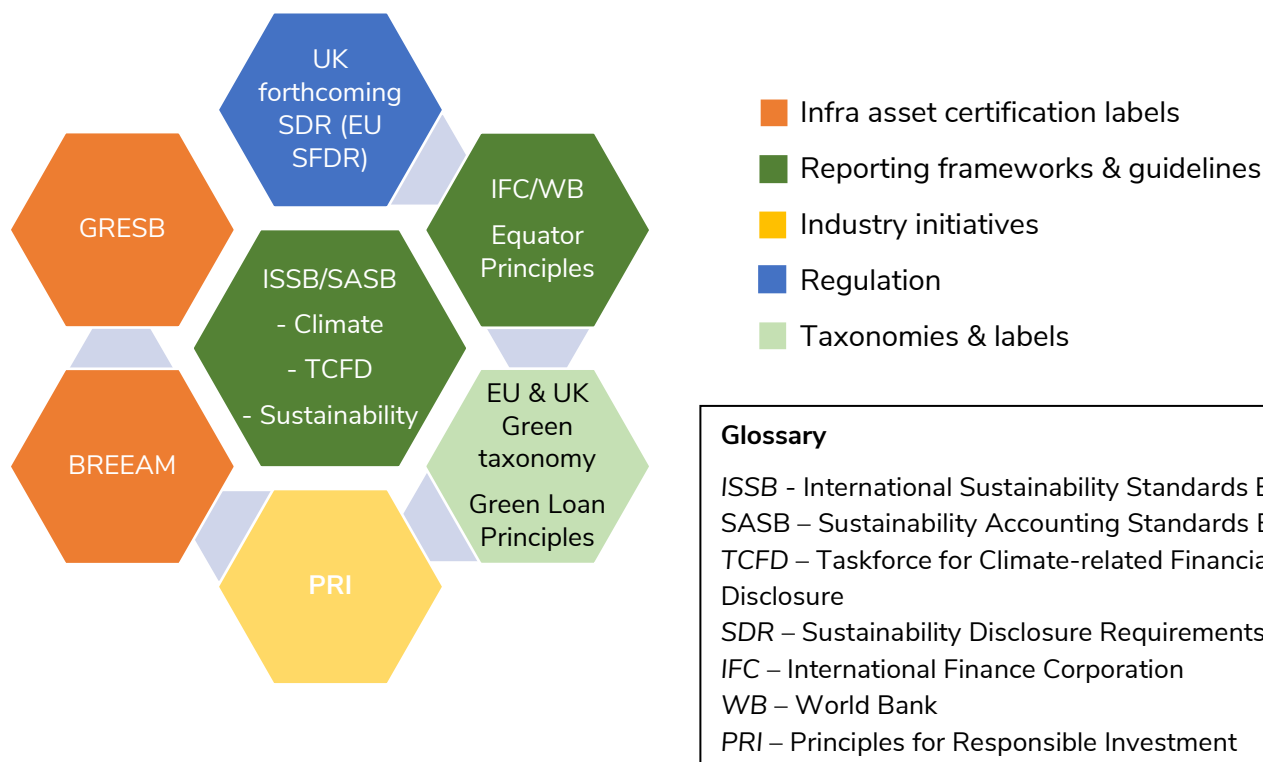
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<sup>1</sup> UKIB refers to both ESRG and ESG in this framework, generally using ESRG to describe UKIB's approach to risks and opportunities and ESG to refer to the external approaches which organisations take.

<sup>2</sup> [UKIB Framework document, 2021](#)

<sup>3</sup> [UK Chancellor's Strategic Steer to UKIB, 2022](#)

**Figure 1 Frameworks reviewed**



It is important to consider the dynamism of the marketplace for ESG standards and the continuous flux of initiatives aiming to streamline reporting requirements and improve data quality. Over the next few years there will be significant rounds of new standards and reporting requirements, many supported by and championed by the UK Government, that affect UKIB and its partners.

These include:

- introduction of the International Sustainability Standards Board (ISSB) reporting standards
- development of UK Sustainability Disclosure Requirements (SDR) guidelines and frameworks for the financial industry
- introduction of the UK’s green taxonomy with consultation expected in Autumn 2023 and clarity on the application of the principle of “Do No Significant Harm (DNSH)”
- sector specific developments - eg on resilience or infrastructure subsectors
- focus on nature and biodiversity with the growing momentum of the voluntary initiative of the Taskforce for Nature-related Financial Disclosure (TNFD).

UKIB welcomes the publication of the refreshed Green Finance Strategy (GFS) in March 2023 and will continue to engage with Government, to ensure that our ESG approach takes account of the latest policy development, and other public finance institutions to share views on best practice. This ESG Framework has been developed in accordance with the UKIB Investment Principles and strategic objectives. It integrates with the Bank’s Impact Framework and will continue to evolve in the future, in line with best market practices.

**Table 1 ESG, Impact & Additionality interplay**

Impact	Additionality	ESRG
<p>Assessment of the potential for an investment to contribute to wider impacts around UKIB’s strategic objectives. Judgement is based on UKIB’s impact narrative, contextual evidence, and project and portfolio level data.</p>	<p>Additionality assesses whether the outcomes UKIB are trying to achieve (and the impact our investments will generate) can be attributed to UKIB or would have happened without its involvement. It considers how UKIB is scaling up, accelerating or making new investments happen and crowding in private capital.</p>	<p>A vital risk management approach to identify and mitigate a range of potential issues to protect and enhance the long-term value of investments, covering areas beyond the Impact assessment. ESG management is a component to protect UKIB’s investments and ensure impact can be realised.</p>

## 2. The ESG Principles

UKIB has five ESG principles to communicate clearly UKIB's priorities and interests.

Figure 2 UKIB ESG Principles

### Principle 1 Strategy alignment

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- Our strategy is aligned to our objectives of tackling climate change and building regional and local economic growth (see our Investment principles). We expect the partners we work with to similarly engage with Environmental, Social, Resilience and Governance (ESG) risks and opportunities and integrate them into their business strategy and decision making.

### Principle 2 Leadership & Governance

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- We incorporate ESG in our governance, and expect the same competent, skilled and independent leadership and governance from our partners.

### Principle 3 Risks & Opportunities

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- We will identify and manage material ESG risks and opportunities for our triple bottom line. We expect our partners to recognise the material ESG risks and opportunities they face and to identify and manage them.

### Principle 4 Transparency

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- We will be transparent about material ESG risks and opportunities in our investments and portfolio, helping to build greater understanding of how these risks apply to infrastructure in the UK. We will only work with partners willing to disclose information about their ESG issues.

### Principle 5 UK context specific

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- We will support UK government's objectives on ESG issues, using the planning, regulatory and legal systems to help us understand material ESG issues. We will work with our partners and support investments where relevant and as appropriately to:
  - manage ESG risks in their supply chains
  - integrate benefits to nature
  - engage local communities in their design and delivery
  - commit to improving diversity and inclusion in their governance
  - understand their resilience to climate related risks.

## 3. Risk and materiality assessment

The aim of UKIB's ESG risk materiality assessment is to focus on the risks that matter to our objectives and financial return.

### **Box 1: What is materiality?**

Materiality is a measure of the relative financial importance of an ESG risk or opportunity. The Sustainability Accounting Standards Board (SASB) defines material issues as those “that are reasonably likely to impact the financial condition or operating performance of a company and therefore are most important to an investor.”

In the UK context, the planning, regulatory and legal frameworks will pick up many ESG issues and provide a method for a project or partner to work through ESG risks with the relevant local authority. We will lean on that, and similar environmental and health and safety regulation, to manage those risks when appropriate.

Planning permission, and environmental and health and safety regulation, do not cover every type of development and ESG risk or opportunity. In these cases, UKIB will take a proportionate approach and learn from our partners. These cases include but are not limited to:

- management of ESG risks in supply chains
- integration of nature benefits into investments
- local community engagement in infrastructure design and delivery
- diversity and inclusion in governance
- understanding of climate related risks in infrastructure, including resilience.

This approach also takes into consideration the role of the UK's regulatory and planning regimes and the bank's developmental role in supporting projects and partners.

Based on our materiality assessment and the output of the ESG tool, we will outline ESG risks and opportunities, mitigations and relevant standards to the Investment Committee (IC). The IC will have flexibility to make a decision on the investment, considering the highlighted ESG risks and opportunities with other aspects of the investment case. The IC will decide any further mitigations or conditions for the approval of the deal. Details on how this is integrated into our investment process are outlined in chapter 4.

### Exclusions and 'Do No Significant Harm' Criteria

The UKIB Framework Document sets UKIB's investment exclusions.

- UKIB will not consider lending or providing other support to projects involving extraction, production, transportation and refining of crude oil, natural gas or thermal coal with very limited exemptions. These exemptions include projects improving efficiency, health and safety and environmental standards (without substantially increasing the lifetime of assets), for Carbon Capture and Storage (“CCS”) or Carbon Capture, Usage and Storage

(“CCUS”) where projects will significantly reduce emissions over the lifetime of the asset, or those supporting the decommissioning of existing fossil fuel assets.

- The Company will also not support any fossil-fuel fired power plants, unless part of an integrated natural gas-fuelled CCS or CCUS generation asset.

The Framework Document also clarifies that where an investment is primarily to support our regional and local economic growth objective, UKIB will ensure that it does not do significant harm against its climate objective. UKIB applies this concept in assessing our deals.


## 4. Integration into UKIB’s investment process

ESRG considerations need to be integrated in every stage of the investment process. This allows us to systematically identify, assess, price, manage, and monitor material ESRG risks. The ultimate goal of addressing material ESRG considerations and practising active asset management is to contribute to an improvement in the long-term risk adjusted returns of the asset and its impact against our objectives.

UKIB has developed an approach to integrate ESRG into its assessment of direct investments (equity, guarantees, debt), indirect investments and Local Authority lending. The approach to each investment will span across the 5 stages of the investment process (see Figure 4 below).

The approach, responsibilities and requirements of the ESRG framework will be incorporated into the relevant committee papers, procedures and project policies to ensure consistent application of the principles of the ESRG framework.

**Figure 3 ESRG across the investment cycle**

Origination	Screening /Pre investment Due Diligence (DD)		Investment decision	Asset /portfolio management	Exit
Use UKIB’s principles to form the narrative around ESG & impact requirements of the Bank			Full ESRG screening, to assess risks in the context of UKIB’s portfolio.  Meeting with partner to discuss their ESG approach	Reporting template  Monitoring of material ESG KPIs and portfolio risks	Assess impact on valuation  Track progress on ESG improvements over time – impact metrics
	Initial screening of material risks per sector, highlighting of high risks	Early review of any publicly available information and outline of metrics required for the investment decision.  Further sector related considerations, and review of any partner/project information available			

ESRG considerations can have both a positive and negative impact on an investment. Thus, they are treated like other aspects of due diligence by assessing risks, the ESRG track record of the business or asset, and opportunities. ESRG factors are considered throughout the full life cycle of the business/project (development, construction, operation, maintenance, decommissioning),



including an assessment of impacts and risks in the supply chain, such as manufacturing and transport.

In making an investment decision, the Investment Committee (IC) will consider how capable the partner or project is to manage ESG conditions and the material ESG risks. They will have information on the material risks, what the partner or project is doing to mitigate them and whether there are any gaps between that and the prevailing standards.

## ESRG approach for indirect investments (funds)

For indirect investments, we need assurance regarding the capability of the fund manager to carry out ESG assessments on UKIB's behalf<sup>4</sup>.

In line with the UKIB's ESG principles, UKIB has developed a list of questions that will be shared with the fund manager during the due diligence process. Key aspects the questionnaire will capture are details of the manager's approach, understanding of size and seniority of ESG team, representation on Investment Committees, etc.

## ESRG approach for local authority lending

UKIB's approach recognises that Local Authorities also face ESG risks and opportunities. For local authorities, ESG is not necessarily positioned within a specific framework, nor is it common language in Local Authority reporting or risk management, but the principles behind it are largely aligned with the role and purpose of Local Authority investments and mission. This is because local authorities are public bodies built to provide services to their communities.

For example:

- environmental factors have long been a consideration for authorities via them owning the planning process and many authorities have adopted net zero plans and strategies
- social impact is at the very heart of what local authorities do, whether through the provision of affordable housing, services for vulnerable members of society or community spaces
- as publicly funded bodies, it is an established principle that their governance structures need to reflect their responsibility to the taxpayer.

Therefore, for local authority deals we will approach ESG proportionally to the project and authorities' needs. The assessment for Local Authorities is aligned with the approaches taken for direct and indirect investments – including supporting the bank to meet the intentions in the UKIB's ESG Principles.

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<sup>4</sup> The approach to guarantees – assuming they will be on assets (i.e., asset-backed guarantees) will be similar to our direct investments.

## 5. ESRG in UKIB's own operations

Our ESRG principles apply to UKIB's operations as well as our financing. We consider ESG as being central to the development of a resilient organisation that will deliver value over the longer term.

Integrating ESG factors throughout our business and developing a culture that takes these into account is important to us. Examples of how we do this are that we:

- **have a focus on measuring and, once we have scaled up, reducing GHG and waste arising from our operating activities over time;** we reported our emissions, waste and water usage where available in our first annual report and accounts
- **encourage a diverse workforce;** inclusion is at the heart of what the Bank does and we consider that diversity in our people and their ideas will be vital to our success. We aim to create a workforce that reflects diversity in the broadest sense, embracing different perspectives, characteristics and experience as well as being one which is broadly representative of the nations and regions of the UK
- **practice sustainable procurement;** we are implementing procurement policies as defined by the Cabinet Office within our procurement process whilst complying with public procurement legislation. Reporting and monitoring are being developed for key sustainable and social value areas. Our procurement focus is on achieving value for money on a whole-life basis and positive outcomes not only for the Bank itself but also for the economy, the environment and society
- **continue to develop our governance frameworks;** to take account of the progressing ESG and TCFD landscapes and provide clear and robust guidance and operating parameters for our people.

## 6. Governance and reporting

Governance structures are key to accountability for managing ESG risk across UKIB. Our leadership and Board are committed to the Climate Change and Regional Local Economic Growth (RLEG) objectives and senior personnel have specific oversight and implementation roles and responsibilities.

The ownership of the ESG processes and risk screenings will be split between various relevant teams within UKIB. For example, the Board will receive regular updates on climate risks and opportunities and has appointed a Board member with lead responsibility for climate-related risk. The Bank's Impact and Risk function have clear responsibilities around assessing climate risk in our investments and managing it through our risk management. Our banking and Local Authority functions will communicate our approach to prospective partners and our Finance function will lead on disclosures.

UKIB will report on ESG in some of the following formats:

- **Deal factsheets;** every time UKIB make an investment, a 'Deal Factsheet' summarising key information about the project, which will utilise some of the most relevant metrics collected during the deal process. ESG information and considerations will also be part of the deal sheets made publicly available.
- **Annual Report and Accounts;** the Bank's annual report will include:
  - summary of the impact the Bank has had, both in the financial year but more broadly on the progress we're making towards achieving our mission. This will include progress on ESG issues
  - our TCFD disclosure including our climate risks and progress in managing them
  - material ESG risks that affect our accounts will be included in will be included in our accounts.