



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

Dear John,

Statement of Strategic Priorities to the UK Infrastructure Bank (UKIB)

Now that the UK Infrastructure Bank Act 2023 (the Act) has come into force and the UK Infrastructure Bank (the Bank) has been placed on a statutory footing, I'm writing to you to formally articulate the government's strategic priorities for the institution in accordance with section 3 ('strategic priorities and plans') of the Act. This statement of strategic priorities is intended to confirm and update the Bank's role in delivering the government's policy agenda which was previously set out by the then Chancellor's strategic steer to the Bank in March 2022.

The government sees the work of the Bank as vital to crowding in the private investment in infrastructure that will be needed over the coming years to help tackle climate change, including to reach net zero by 2050, and to support regional and local economic growth. In doing this, I expect the Bank to play a key role in boosting business investment in the UK, both directly and indirectly. The Bank should be proud of the significant amount of progress it has made since its launch in 2021, having announced 20 deals to date across clean energy, transport, digital and water and launched its local authority (LA) advisory function. The Bank has already started to make a sizeable impact in the market – mobilising over £9.6 billion in private capital and supporting over 5,700 jobs across the UK.

I am keen for the Bank to further accelerate progress to help facilitate a transformation in the UK's economic infrastructure to help tackle climate change and support regional and local economic growth. As you will be aware, significant investment is required to tackle climate change; additional investment needs for the transition will peak at £50-60 billion per annum in the early 2030s, with the bulk of this needing to come from the private sector. The Bank will play a critical role in supporting the UK's continued international leadership and commitment to net zero, and will form a key part of our response to increasing global competition for investment into net zero technologies. Additionally, as we continue to respond to Russia's illegal invasion of Ukraine, the Bank has a key role in accelerating the move to cleaner, cheaper, home-grown energy, to deliver energy security and tackle climate change together. The Bank will also play an important role in addressing the geographic inequalities which persist across and within UK regions by supporting better connectedness, creating new job opportunities, and driving higher levels of productivity.

The specification of the government's strategic priorities for the Bank are set out in the annex to this letter. We look forward to seeing the Bank's updated investment and LA function strategies and to those fully reflecting this statement of strategic priorities.

Best wishes,

A handwritten signature in blue ink that reads 'Jeremy Hunt'.

RT HON JEREMY HUNT MP
Chancellor of the Exchequer



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Statement of Strategic Priorities to the UK Infrastructure Bank

Prioritisation and definition of infrastructure

Section 2(6) of the Act sets out a non-exhaustive definition of infrastructure. The Bank should continue to prioritise, in particular, clean energy, transport, digital, water and waste. Nuclear energy continues to be in scope. The Bank should not ordinarily support projects which are predominantly social or cultural infrastructure; this includes housing, schools, health facilities, courts, prison facilities, sports venues or cultural venues (theatres, libraries, museums, cinemas etc.). This does not prevent the Bank from considering mixed infrastructure projects, such as a town centre regeneration, where there is a significant economic infrastructure component (as per the definition of infrastructure in the Act), alongside other sectors that in isolation would not normally be supported.

Although the construction of new housing should not be considered by the Bank (besides the circumstances set out above), projects or technologies that support energy efficiency are in scope. This includes the retrofit of existing homes and buildings, and the decarbonisation of heating, in line with the government's Heat and Buildings Strategy. This continues to reflect the strategic importance of the net zero transition and the government's focus on energy security.

The Act enables the Bank to invest in 'nature-based solutions'. I note that, in line with our previous steer, the Bank has been considering its role in natural capital markets, including through its November 2022 discussion paper, and has already made its first investment into nature-based solutions. I look forward to seeing how the Bank's role in this market will develop over time, with nature-based solutions being crucial in mitigating and adapting to climate change, alongside tackling the government's wider environmental goals.

Section 2(6) of the Act gives the Bank scope to also invest in critical supply chains and advanced manufacturing where there can be a direct benefit to and demonstrable outcome against the Bank's objectives. In particular, we are keen for the Bank's investments in supply chains to support the government's ambition to achieve greater economic security and supply chain resilience within the bounds of its existing objectives. This includes semiconductor manufacturing, where the Bank can help accelerate the UK's domestic capabilities and/or reduce the carbon intensity of their manufacturing. It also includes supporting the mining, refining and recycling of critical minerals that are vital to the UK's net zero transition, in line with the UK Critical Minerals Strategy. However, while the Bank should take opportunities to invest in supply chains where relevant to its objectives, I would expect it to continue to prioritise investing directly in economic infrastructure assets and networks in its five priority sectors.

Interpretation of strategic objectives

Tackling climate change

Action to tackle climate change is of vital importance to the UK and the international community, and the government remains fully committed to its net zero targets. The Bank can play a significant role in bringing through new technologies (e.g. carbon capture, utilisation and storage



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(CCUS), hydrogen, long duration energy storage (LDES), and sustainable aviation fuels (SAF)) and scaling up existing technologies (e.g. solar, electric vehicle charging) that help to reduce the UK's emissions. Related to this, the Bank should continue to invest in supporting infrastructure to enable these technologies to scale, including onshore and offshore networks. The Bank can also play an important role in supporting greenhouse gas removals (GGRs) – both engineered and nature-based approaches. More broadly, the Bank should continue to work closely with central government to ensure its activities are complementary to the government's Net Zero Strategy and the climate and energy security plans set out in *Powering Up Britain* earlier this year. It is also important that the Bank continues to explore projects that make the UK's infrastructure more resilient to climate change and better adapted to future risks within its existing objectives.

Given the imperative of the UK reaching net zero, the Bank should continue to focus on supporting investments in clean energy projects. This includes projects and technologies that help us to reduce our reliance on fossil fuels. We are keen for the Bank to support the government's target to decarbonise our electricity system by 2035, subject to security of supply, and its ambition for the development of new generation capacity and technologies, such as 5GW of floating offshore wind and up to 10GW of low carbon hydrogen production by 2030. This also includes improving the efficiency of our energy system, in line with the aim to reduce energy demand from buildings and industry by 15% over the same period.

Supporting regional and local economic growth

Addressing the deep spatial disparities across and within UK regions continues to be a central ambition of this government. The Bank has a key role to play in supporting growth 'through better connectedness, opportunities for new jobs, and higher levels of productivity' as set out in the Bank's Framework Document. The Bank should continue to target its portfolio of investments towards projects across the UK that deliver against the missions set out in the government's *Levelling Up White Paper (LUWP)*. In particular, the Bank should prioritise missions 1, 3 and 4 – relating to employment and productivity, transport infrastructure and digital connectivity – which most directly align with the Bank's remit. On digital connectivity, the Bank should focus on supporting hard-to-reach areas that have struggled to attain private investment.

To maximise the impact of its investments in supporting economic growth, the Bank should continue to consider how it can invest alongside other place-based interventions by both private and public sectors. This includes deploying the Bank's levers to support the Investment Zones and Freeports programmes – for example, through providing advisory support to Local Government, including Mayoral Combined Authorities (MCAs), to increase the commercial viability of investments within Investment Zones or Freeports, or working with local partners to explore where there are projects which meet the Bank's financing requirements.

Local authority (LA) lending and advisory function

The Bank's LA function will play an important role in meeting the Bank's objectives. The Act enables the Bank to lend directly to LAs and we are keen for the Bank to prioritise deploying its £4bn of LA lending capacity towards projects which deliver value for money for the taxpayer,



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developing high value strategic projects across the UK. I am grateful to the Bank for working with HMT, DLUHC, DESNZ, DfT and DEFRA to identify the challenges faced by a broad range of authorities to bring forward viable infrastructure projects. I expect the Bank to continue working collaboratively with stakeholders across the UK to address these issues and support solutions identified, including improving the Bank's lending offer and marketing alongside its advisory function.

The Bank's LA lending offer will continue to operate alongside the Public Works Loan Board (PWLB) which provides lending to LAs across England, Wales and Scotland for a broad variety of capital spending. The Bank should continue to ensure that its assessment of LA credit risk maintains consistency with the PWLB.

I am pleased to see the Bank's LA function has now moved into the operational phase and is available to access by authorities across the UK. It will play an important role in empowering Local Government, including MCAs, to deliver infrastructure projects that bring economic benefits across the country. I expect the Bank to learn from its pilot programmes by targeting engagement at high-impact projects most aligned with the Bank's mandate. It should seek to develop effective financial models to common place-based infrastructure challenges, including supporting the commercialisation of projects that are in the early stages of development. This should include those that support the net zero transition.

Scotland, Wales and Northern Ireland

I am pleased to see the Bank making investments across the UK and that the Bank has established productive relationships with the devolved administrations (DAs), Scottish National Investment Bank and the Development Bank of Wales. I am also delighted that the Bank has begun recruitment for posts in each of the nations. The Bank should continue to focus on building its UK-wide presence and strengthening its ties with the DAs and relevant institutions across the UK.

Additionality

Since the Bank opened for business in 2021, it has successfully mobilised over £9.6 billion of private capital by deploying approximately £1.9 billion of its financial capacity. I welcome the Bank's publication of its approach to additionality alongside its Impact Framework. I am keen for the Bank to continue working with officials to further refine how the Bank's overall impact is measured particularly with regards to the amount of private investment crowded in. The Bank should retain an ongoing focus on maximising its achievement against its strategic objectives and the added value that it brings to the market, with a focus on crowding in investment and overcoming barriers to private finance. In doing so, we encourage the Bank to continue working with private investors to ensure that it is not acting where investors are already willing to act.

The Bank has a pivotal role to play in enabling the UK to be a world-leader in creating opportunities for private investors to support the creation and growth of new sectors crucial to tackling climate change and supporting regional and local economic growth. This will involve the Bank taking on risks, within the controls set out in its financial framework, required to support the formation and development of new markets.



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I am eager for the Bank to be proactive in supporting establishing and advancing new sectors, including through innovative financing structures (such as blended finance models). This may mean taking early action despite the inherent uncertainty as technologies develop and whilst the government's own policy interventions to support sectors are being developed.

The Bank should work with relevant stakeholders (e.g. the British Business Bank (BBB), Innovate UK) to support under-developed and challenging markets, including early-stage technologies (e.g. CCUS, hydrogen, LDES, GGRs, SAF), to maximise policy impact.

Partnerships and convening role

I am pleased to see the Bank establishing strong relationships across the public and private sectors. The Bank's ambitious mandate and balance sheet give it significant potential to drive positive change in the infrastructure market across the UK. I therefore encourage the Bank to continue to work closely with relevant stakeholders across the UK (including private investors, project developers, public bodies, and government departments) to share knowledge and insight, and to make connections to support market development.

The Bank should continue to engage with a range of investors to capitalise on the opportunities unleashed by the Edinburgh Reforms and Solvency II reforms announced by the government last year. I recognise there may be some cases, especially in nascent sectors, where a potential investment is in scope of other public finance institutions, such as the BBB. The Bank should work closely with these organisations to ensure investments made are complementary.

I am also particularly keen that the Bank continues to work closely with government departments (including HMT, DESNZ, DLUHC, DEFRA, DSIT, DfT and DBT) to support the delivery of common policy goals. As part of this, the Bank should continue to consider how blended finance approaches (e.g. guarantees, cornerstone equity) – tools core to the Bank's operation – should be harnessed to maximise the private sector investment leveraged by public sector spend. This will require close collaboration and partnership between the Bank and central government departments at the consultation, design and delivery stages of funding programmes, including grants, revenue support schemes and blended finance models.

Management of the UK Guarantees Scheme (UKGS)

I am pleased that the Bank is now able to write guarantees in its own name with the Treasury's backing through the Sovereign Infrastructure Guarantee (SIG) scheme, which will enable the Bank to deliver up to £10 billion in guarantees. I encourage the Bank to continue developing its guarantee programme, and identifying how it can be deployed to support its policy objectives. I would also like to thank the Bank for its continued effective stewardship of the UK Guarantees Scheme (UKGS). This continues to be a priority for HMT and the Bank should continue to prioritise the effective management of UKGS assets within the existing frameworks on behalf of HMT.



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