INFRASTRUCTURE BANK

STRATEGIC PLAN

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FOREWORD
FROM THE CHEIF EXECUTIVE

John Flint

The UK Infrastructure Bank opened its doors in June 2021, and I was honoured to join as the Bank's first permanent CEO in September 2021.

I am pleased with the progress we made in our first year. We closed 7 deals worth £610 million - mobilising over £4.2 billion of private capital, opened two offices, onboarded 146 staff and started to build relationships with our stakeholders.

I am grateful for the warm welcome we have received from stakeholders across the country, including those in our home city of Leeds. We will invest across the UK and look to establish a presence in all four nations.

We were set up to tackle two urgent challenges – climate change and regional economic disparities.

Tackling climate change, particularly reaching net zero by 2050, is one of the biggest challenges facing the UK. Russia's invasion of Ukraine has highlighted the UK's dependence on fossil fuels and the impact this can have on people's bills. The Chancellor's strategic steer to the Bank is clear that the government's energy security ambitions complement our climate change objective. We will finance the scale up of existing green infrastructure and accelerate the deployment of new green technologies such as hydrogen and carbon capture usage and storage (CCUS).

On many measures the UK is one of the most geographically unequal developed economies. Opportunity is not spread equally across the country. Infrastructure can connect people and give individuals the opportunity to make the most of their talents without leaving their local area. Our net zero investments will benefit communities across the UK, helping to drive economic growth. We will invest to support the government's levelling up missions, particularly those relating to employment, productivity, and transport and digital connectivity.

I am proud of what the Bank has already achieved, but there is much more to do. This month, the Chair and I were delighted to announce the appointment of four new non-executive directors and five founding members of our executive team. They share our vision and bring a wealth of experience and expertise. We recently launched our recruitment campaign to hire permanent staff for roles across the Bank, moving away from our reliance so far on secondees and contractors.

We have an initial £22 billion of financial capacity. We will aim to deploy up to £3 billion of debt and equity and £2.5 billion of guarantees a year, committing our £22 billion over the next five to eight years, subject to the pipeline of investable projects in each year.

The publication of our first strategic plan is a crucial step in the Bank's development. This plan sets out how we will deliver on our mission to partner with the private sector and local government to increase infrastructure investment to help to tackle climate change and promote economic growth across the regions and nations of the UK.

We have identified a wide range of investment opportunities and we will respond to changing market conditions, adjusting our investment focus appropriately. Several of our early investments have financed the roll-out of gigabit capable broadband, particularly to harder-to-reach areas, reflecting the current financing conditions in the sector. Over time, we expect clean energy will emerge as our largest sector, reflecting its importance to the UK's net zero and energy security ambitions.

We want to lead the market in tackling specific infrastructure challenges. We are still considering which challenges we will look at first – options under consideration include financing the roll-out of electric vehicle charging points, the retrofit of buildings, the scale up of storage technologies or new net zero technologies such as low-carbon hydrogen and CCUS.

These are not challenges we can tackle alone – to succeed we need to partner with our public and private stakeholders. We will work with the UK government and the devolved administrations as they develop policy frameworks to help unlock investment and with the private sector to understand how we can crowd-in private capital.

We are a young organisation. I want the Bank to be a place where the best and the brightest of the public and private sector work together, energised by the opportunity to tackle major infrastructure challenges. And in doing so, make a difference to the lives of everyone in the UK.

John Flint
CEO
UK Infrastructure Bank

EXECUTIVE SUMMARY

Executive summary

The UK Infrastructure Bank is a new, government-owned policy bank, focused on increasing infrastructure investment across the United Kingdom.

Our mission is to partner with the private sector and local government to **increase infrastructure investment** in pursuit of our two strategic objectives:

- **to help tackle climate change**, particularly meeting the government's net zero emissions target by 2050
- **to support regional and local economic growth** through better connectedness, opportunities for new jobs and higher levels of productivity

This is our **first strategic plan** – it sets out how we will deliver on our mission.

We launched, in interim form, in June 2021. Over the past year we have started to scale up our activity, increasing our capability and capacity. We have closed 7 deals worth £610 million.

We will continue to build out the bank over the coming years. **Our ability and bandwidth to tackle the infrastructure challenges set out in this plan will increase over time, as we recruit more permanent staff.**

This plan builds on the potential private sector opportunities in priority sectors discussion paper we published in January 2022. We tested this paper with over 100 stakeholders and their feedback has informed this plan.

We will act in line with our operating principles:

1. **Delivering on our triple bottom line:** achieving policy objectives, crowding-in private capital and generating a positive financial return

2. **Impact and credibility:** we will focus our investments where we can maximise our impact

3. **Partnership:** we will collaborate with private and public sector stakeholders

4. **Operational independence:** we are wholly owned and backed by HM Treasury, but we have operational independence in our day-to-day activity

5. **Flexibility:** market conditions evolve, and we will change with them. We will review our focus annually – adapting our approach and priorities. Our investment strategy is designed to be flexible and leverage our ability to invest across the capital structure. We will assess each deal on a case-by-case basis to identify the financing structure that best fits a deal's needs and supports the Bank's mission

What we offer

We have an initial **£22 billion of financial capacity.** We will aim to deploy up to £3 billion of debt and equity and £2.5 billion of guarantees a year, committing our £22 billion over the next five to eight years, subject to the pipeline of investable projects in each year.

Our **private sector function** will invest up to £8 billion and issue up to £10 billion of government guarantees. We will provide corporate and project finance and invest across the capital structure, including senior debt, mezzanine, guarantees and equity.

Our **local authority function** will lend up to £4 billion to local authorities at a preferential rate (gilts + 60bps) for high value and strategic projects of at least £5 million. We will take a phased approach to building our advisory function as we scale-up our internal expertise. In the first phase, we will run a number of targeted pilot projects in partnership with local authorities to test where and how we can best add value.

How we invest

We will assess investments against these principles:

- **Investment principle 1:** support our objectives to drive regional and local economic growth or support tackling climate change.
- **Investment principle 2:** be in infrastructure assets or networks, or in new infrastructure technology. We will operate across a range of sectors, but will prioritise in particular clean energy, transport, digital, water, and waste.
- **Investment principle 3:** be intended to deliver a positive financial return, in line with the Bank's financial framework.
- **Investment principle 4:** be expected to crowd in significant private capital over time.

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

Where we invest

We will invest across the infrastructure landscape, including in new infrastructure technology. We focus primarily on economic infrastructure.

We have five priority sectors set by HM Treasury

Clean Energy | **Transport** | **Digital** | **Waste** | **Water**

We will not invest across these sectors equally. We expect clean energy will be the largest sector in our portfolio, reflecting its importance to the UK's net zero and energy security ambitions. The remainder of our portfolio will be more heavily weighted towards transport and digital. Both sectors are crucial to linking people and places, and spreading opportunity more equally. Water and waste are likely to be our smallest sectors because this is where we currently see the fewest investment opportunities.

A summary of the investment opportunities we have identified is set out on page 11.

Measuring our impact

We want to maximise the impact of our investments, achieve our strategic objectives and deliver on our triple bottom line in a transparent and accountable way. We are starting with a small set of KPIs that will help inform our decision making in a quantifiable way and we will be transparent about the way in which we measure our investments. We will develop our approach over time as we build our capability, expand our portfolio and learn from the investments we make.

We will develop our ESG policy and framework over the next year. This will incorporate resilience to climate change as an additional pillar to form an Environmental, Social, Resilience and Governance (ESRG) framework.

Looking forward

This plan reflects our view, after only one year, on where we can best add value. We are a new organisation - we will continue to iterate and refine the thinking set out in this plan as we learn more about how best we can deliver on our mission. The plan will be reviewed and updated by the Board during 2023.

Our investment opportunities

We have identified the following investment opportunities. The Bank is not limited to these, and we encourage all projects that meet our investment principles to apply for financing.

Clean energy

Power

- finance the transition of mature renewable technologies to subsidy-free business models
- finance the deployment of new technologies for renewable power generation
- explore how the Bank can support the regulated asset base (RAB) model in attracting private finance into nuclear projects
- finance flexibility and storage technologies, such as battery projects

Hydrogen, fuel supply and industry

- finance new green technologies, particularly low carbon hydrogen and carbon capture usage and storage (CCUS)

Heat and buildings

- finance the deployment of retrofit, energy efficiency and heat technologies

Transport

- finance electric vehicle charging infrastructure, working with both local authorities and private providers
- finance local authorities to adopt zero emission buses
- finance the procurement of green rolling stock
- finance port infrastructure, particularly where it supports green industries
- finance mass transit systems and infrastructure upgrades

Digital

- finance the roll-out of gigabit capable broadband, particularly to harder-to-reach areas
- monitor 5G roll-out and help finance any emerging capacity gaps

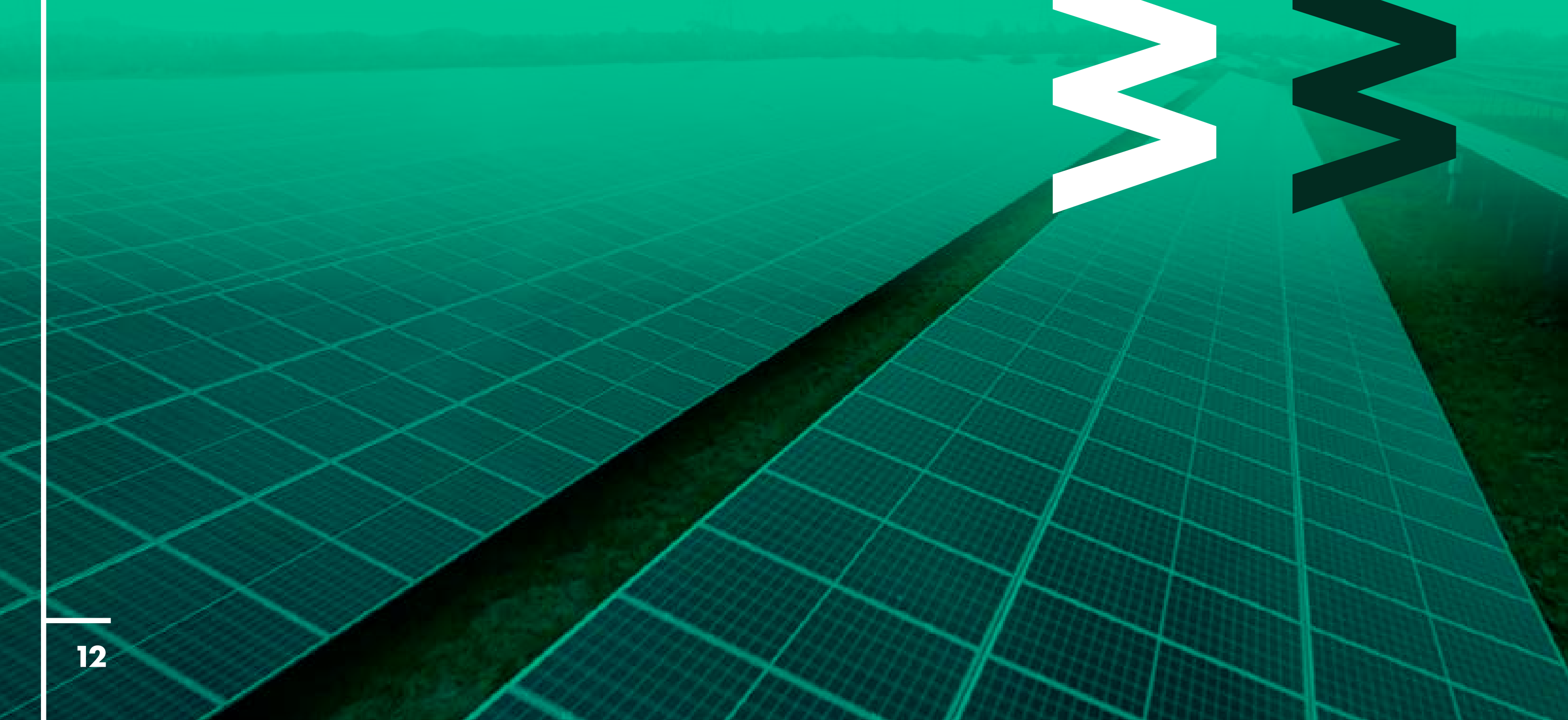
Water

- finance projects procured under the direct procurement for customers (DPC) model
- consider the role we can play in nature-based solutions

Waste

- finance new and retrofitted energy from waste plants that include CCUS or significant heat offtake projects
- finance proposals that increase the scale and sophistication of recycling infrastructure

WHO WE ARE



Who we are

The UK Infrastructure Bank is a new, government-owned policy bank, focused on increasing infrastructure investment across the United Kingdom.

We launched, in interim form, in June 2021.

Over the past year we started to scale up our activity, increasing our capability and capacity.

We have closed 7 deals worth £610 million, mobilising over £4.2 billion of private finance.

We will continue to build out the Bank over the coming years. Our ability and bandwidth to tackle the infrastructure challenges set out in this plan will increase over time, as we recruit more permanent staff.

Our mission

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

This mission is pursued through two strategic objectives:

- **to help tackle climate change**, particularly meeting the government's net zero emissions target by 2050
- **to support regional and local economic growth** through better connectedness, opportunities for new jobs and higher levels of productivity

Our journey

Interim phase

In our first year, we have quickly built up our core functions:

- onboarded 146 staff from across private and public sectors
- closed 7 deals worth £610 million
- opened two offices – our headquarters in Leeds and a satellite office in London
- appointed permanent non-executive directors and members of the senior executive team

The UK Infrastructure Bank Bill was introduced in May 2022. The Bill will put the Bank on a statutory footing.

Build-out

Our people: we are ambitious in our plans to build the Bank. Currently, we are resourced with Civil Service secondees and interim contractors, with a small number of permanent employees. Our future resourcing will focus on recruiting permanent employees, using seconded employees where appropriate, and minimising the use of contract staff. We are now able to hire on a permanent basis. In June we announced the appointment of our senior team, and they will join the Bank over the summer. We will now begin to launch recruitment campaigns for roles across the rest of the Bank. We will take these forward over the coming months, with a view to reaching a steady state headcount of 300-350 staff during 2023-24. The vast majority of these roles will be based at our headquarters in Leeds.

Building our infrastructure: in building-out the Bank, we are creating the structures and introducing the resources necessary for us to manage our investments, and the risks and exposures associated with them. We are not subject to conventional financial services regulation, but we are adopting key regulatory principles – as required by our shareholder. We are also developing internal structures consistent with conventional commercial banks by putting in place risk, compliance and internal audit functions on the 'three-line-of defence' model.

Our budget and financial forecast: HM Treasury has allocated us an operating expenditure budget of £70.7 million in 2022-23 to ensure we can build the capability mentioned above. In time, we expect to make a financial return and fund our operating costs from our own resources. This is in line with our return on equity target of 2.5-4.0%, set by HM Treasury (see the investment principle 3 chapter for more detail of our approach). We plan to reach the point where we generate sufficient income to cover our operating costs by financial year 2025-26.

Annual Report and Accounts: our first Annual Report and Accounts, covering the 2021-22 financial year, will be published in the autumn.

Advisory: We will take a phased approach to building our local authority advisory function as we scale up our internal expertise. In the first phase, we will run a number of targeted pilot projects in partnership with local authorities to test where and how we can best add value.

The delivery of this strategic plan will be achieved through the talented staff from across the private and public sectors that join the Bank over this period. The plan will be reviewed and updated by the Board during 2023.

Our journey

SET-OUT

November 2020
Government announced the creation of the UK Infrastructure Bank

March 2021
Chancellor publishes the UKIB's Policy Design Document alongside Spring Budget

April 2021
Chris Grigg announced as first UKIB Chair

INTERIM

June 2021
UKIB opens for business at its Leeds headquarters

September 2021
John Flint announced as first permanent CEO

October 2021
First local authority deal £107m to Tees Valley

November 2021
First private plan to finance subsidy free solar deployment

January 2022
Discussion document on potential private sector opportunities published

March 2022
End of financial year 2021-22 with 6 deals completed worth £410m

May 2022
UKIB Bill introduced to Parliament

BUILD-OUT

June 2022
First strategic plan published

Autumn 2022
Our first Annual Report and Accounts covering 2021-22 will be published

Throughout 2022
Over the next year we will work to build-out our impact function to help guide our investments and measure our performance

Throughout 2022
We will build our advisory services in phases - starting with targeted pilots with local authorities

Summer 2023
We plan to have built out the Bank and reached our steady state headcount by Summer 2023

HOW WE OPERATE

Our operating principles

Triple bottom line: our investments must achieve one or both of our strategic objectives, generate a positive financial return and demonstrate additionality – focusing where there is an undersupply of private sector financing and reducing barriers to investment – thereby crowding-in private capital.

Flexibility: market conditions evolve, and we will change with them. We will review our focus annually – adapting our approach and priorities. Our investment strategy is designed to be flexible and leverage our ability to invest across the capital structure. We will assess each deal on a case-by-case basis to identify the financing structure that best fits a deal's needs and supports the Bank's mission.

Impact and credibility: we focus our investments where we can make the biggest impact.

Partnership: we will collaborate with private and public sector stakeholders to facilitate and increase infrastructure investment.

Operational independence: we are wholly owned and backed by HM Treasury, but we have operational independence in our day-to-day activity.

Our engagement

Partnership underpins everything we do. Our mission requires us to complement rather than compete with the market.

We engage openly with our stakeholders, valuing their insight on how we should invest.

We will build strong relationships across the infrastructure landscape to build our deal pipeline and establish ourselves as a credible investor.

We will work closely with the Scottish and Welsh governments and the Northern Ireland Executive to increase infrastructure investment in all nations of the UK.

Engagement so far

Since our launch, **we have engaged extensively with public, private and academic stakeholders** to further our understanding of how and where we can have the biggest impact.

In January 2022, **we published a discussion paper** - potential private sector opportunities in priority sectors – that set out our thinking on where we could invest in our priority sectors. We discussed this paper with over 100 organisations and the feedback we received shaped this plan.

We engaged with local authorities across the country to **develop our local authority lending function.** We discussed how the Bank's advisory service can support their infrastructure ambitions.

Developing our strategic plan

- engaged with over 100 organisations
- met with the devolved administrations
- partnered with key stakeholders to convene six roundtables – including on the built environment and nature
- met with representatives across the infrastructure sector, including banks, project sponsors, lawyers, and borrowers
- met with relevant government departments, arm's length bodies and regulators
- met combined authority mayors and local leaders
- engaged with local government organisations and networks
- led workshops with local government leaders from all regions of the UK

Engagement going forward

We will continue to work closely with our stakeholders to cement the Bank's reputation as a credible, trustworthy partner.

Key external stakeholders	Priorities
Devolved administrations	Developing strong relationships with the devolved administrations to understand their priorities and identify investable projects in all four nations of the UK.
Infrastructure market	Forging relationships with project sponsors, advisers and borrowers to finance new infrastructure projects.
Investors	Building relationships with a range of investors to help us understand how we can best crowd-in private capital.

Local authorities	Working closely with local authorities to understand their financing and advisory needs. We will engage directly, and through partners and networks, to raise awareness of our lending offer and, when it is established, our advisory service.
Public sector financing institutions	Working closely with other public sector financing organisations – including the British Business Bank (BBB), UK Export Finance (UKEF), the Scottish National Investment Bank (SNIB) and the Development Bank of Wales – to ensure our investments are complementary and leverage their financing.
Industry thought leaders	Engaging academics, think tanks and trade bodies to ensure we have the latest information on market and technological developments to inform our investments.
UK Government	Working closely with government departments to ensure we are aligned with government policies.
UK Parliament	Establishing open channels with Parliament to ensure our work is understood by Members and we demonstrate how we are delivering value for money.

WHY WE ARE NEEDED

Why we are needed

High quality infrastructure underpins economic growth – supporting productivity, boosting competitiveness and improving lives. Economic infrastructure can help address major challenges such as achieving net zero, reducing regional economic disparities and achieving sustainable local economic growth.

There is a broad consensus that the UK has historically underinvested in infrastructure. The government has set out how it plans to increase infrastructure investment:

- the 2019 Infrastructure Finance Review highlighted the need for long-term stable investment, particularly from the private sector
- the 2020 National Infrastructure Strategy articulated the government's plans to transform the UK's infrastructure networks
- the 2021 Spending Review outlined the government's commitment to increasing public spending on economic infrastructure

Increased infrastructure investment will be required to meet our two strategic objectives. Several strategies have set out how the government will address climate change and regional economic growth. These include the Net Zero Strategy, the Levelling Up White Paper and the British Energy Security Strategy (BESS).

All these strategies combine targeted public spending, at both the national and local level, with policies to encourage increased private sector investment, including in infrastructure. For example, the Net Zero Strategy highlights that private sector investment and local authorities will both play an essential role in the net zero transition:

- the government is seeking to leverage up to £90 billion of private sector investment by 2030 to help achieve the Net Zero Strategy

- local authorities are responsible for key infrastructure – including transport, waste and regeneration – that impact the UK's emissions, and many have set their own ambitious net zero targets

Beneath these strategies sit more detailed plans for how government aims to drive change in specific sectors. For example, the UK electric vehicle infrastructure strategy combines £500 million of grant funding for local authorities with an ambition to remove barriers to private investment.

Supporting local authorities deliver their infrastructure priorities

Local authorities operate in a complex financial environment despite being at the forefront of unlocking regional and local economic growth and their role in the net zero transition. Their funding and financing come from a range of sources, and the need to deliver day-to-day spending and statutory services can squeeze the resources available for long-term infrastructure projects. Our local authority lending and advisory function will support local authorities in delivering their infrastructure priorities. Pages 32-35 set out additional detail about our lending and advisory offer to local authorities.

Reducing barriers to private finance

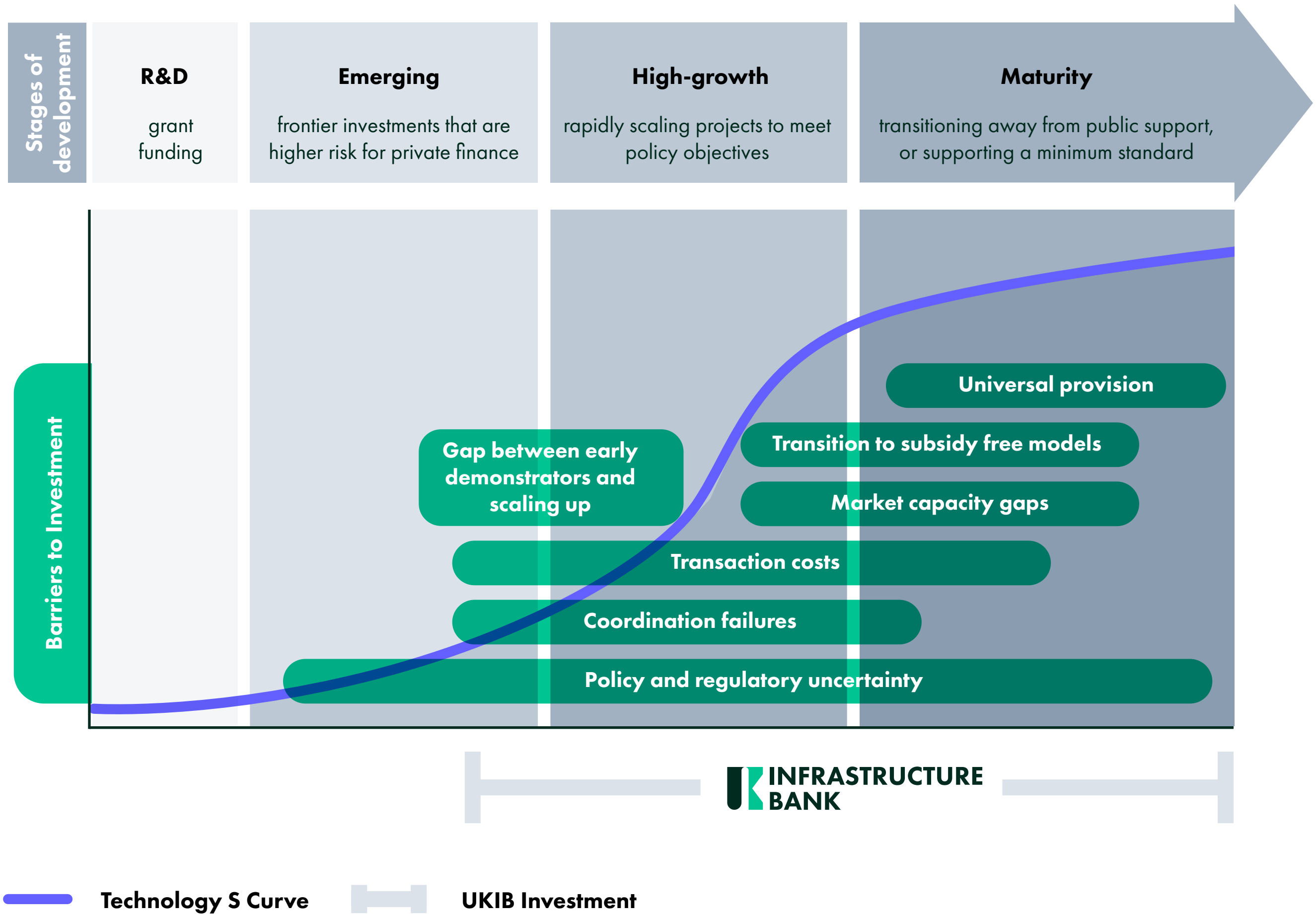
Our private finance function can help bridge the gap between public and private finance by reducing barriers to private infrastructure investment.

Infrastructure investment often faces barriers because projects can be complex, large, novel and long-term, with risks around construction, and technological or government policy changes. Markets may provide less investment than is socially optimal if investors are hesitant about capturing adequate returns on investment.

We will prioritise investments where there is an undersupply of private sector financing, and, by reducing barriers to investment, we can crowd-in private capital.

The investment barriers will change through the lifecycle of a technology or sector. For example, the barriers faced by a first of a kind carbon capture usage and storage (CCUS) project are different to those faced by more mature technologies.

Barriers to private infrastructure investment



Some of the investment barriers the Bank can address are listed below. Most infrastructure deals are bespoke. Our investment strategy is designed to be flexible and leverage our ability to invest across the capital structure. We will assess each deal on a case-by-case basis to identify the financing structure that best fits a deal's needs and supports the Bank's mission.

- **Frontier investments:** investment in early-stage technologies or novel business models requires lenders to take more risk. In some cases, the cost of capital can be too high for these projects to bear, slowing the development of new technologies. For the right deal, we can take more risk and offer finance on more preferential terms than the market to lower a project's cost of capital.

- **Scaling proven technologies at pace:** our engagement suggests that there can be a financing gap between initial projects and the second wave of projects aiming at wider adoption. We can accelerate market development to bring down costs and help meet government ambitions.

- **Coordination failures:** where a market is fragmented between different actors and business models, it can be difficult for projects to get off the ground. The Bank can help address these coordination challenges.

- **Removal of subsidy:** we can support the transition of mature technologies to subsidy-free models.
- **Market capacity:** we can invest in mature markets if there is evidence that there is not enough market capacity to meet the required scale of investment.
- **Universal provision:** the market is not always incentivised to achieve universal access. We can support the roll-out of infrastructure to areas where the market may not invest alone.
- **Policy and regulatory uncertainty:** our unique position between the public and private sector means we are better placed than private investors to navigate policy uncertainty.

Public sector investment landscape

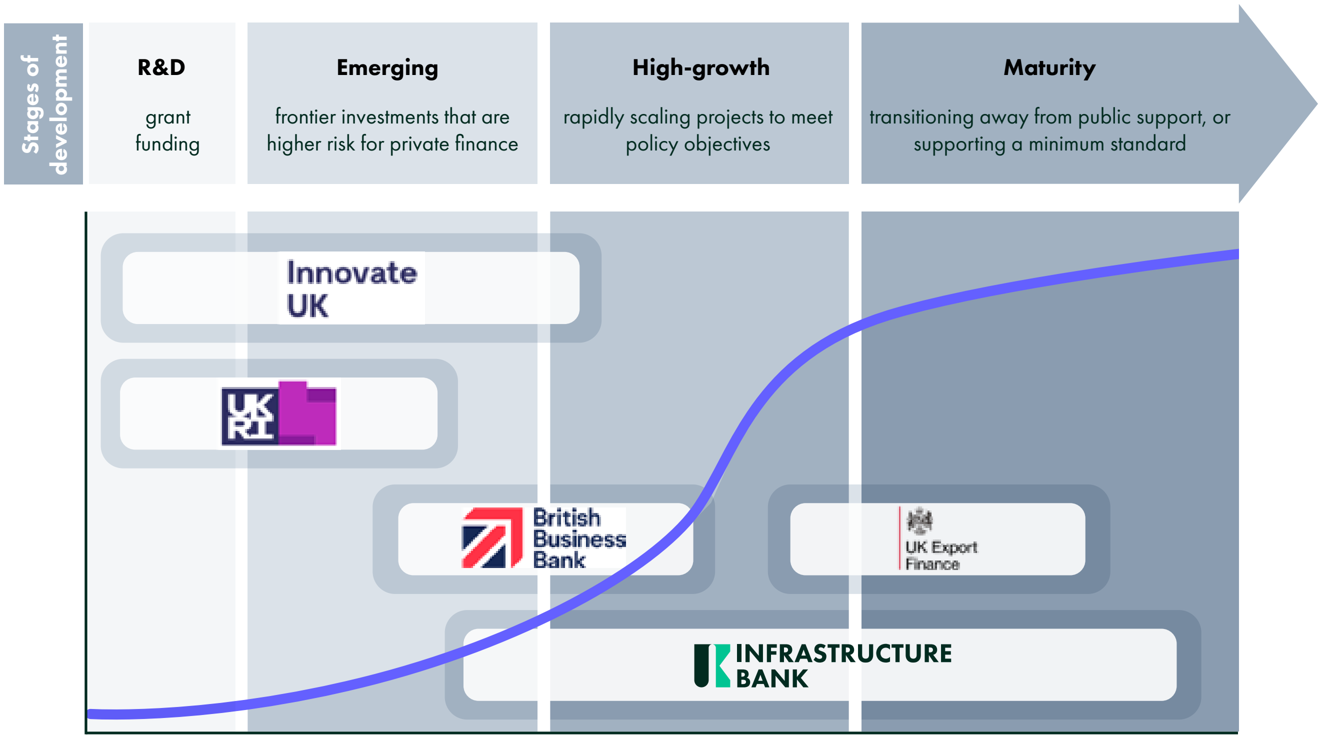
We work alongside other public sector financing institutions, including the British Business Bank (BBB), UK Export Finance (UKEF), the Scottish National Investment Bank and the Development Bank of Wales.

We will support frontier technologies at a later stage than UKRI and Innovate UK. Our private sector function will typically invest directly in large infrastructure projects in our five priority sectors, whereas the BBB focuses on improving access to finance for small and medium enterprises throughout their growth journey.

We work closely with the specialist infrastructure expertise across government, including the National Infrastructure Commission (NIC), Infrastructure and Projects Authority (IPA) and Homes England.

We will complement and work collaboratively with BBB and UKEF, referring relevant opportunities where we cannot support an investment.

Public sector investment landscape



Complementary infrastructure expertise

NATIONAL INFRASTRUCTURE COMMISSION

Infrastructure and Projects Authority

Homes England

Scottish and Welsh finance institutions

Banc

The Scottish National Investment Bank

WHAT WE OFFER

Private financing

£8 billion

for lending and investments

£10 billion

of government guarantees

We provide corporate and project finance. We will invest across the capital structure, including senior debt, mezzanine, guarantees and equity. We do not provide revenue guarantees.

Most infrastructure deals are bespoke. Our investment strategy is designed to be flexible and leverage our ability to invest across the capital structure. We will assess each deal on a case-by-case basis to identify the financing structure that best fits a deal's needs and supports the Bank's mission.

Debt

- We can provide debt across the capital structure.
- Indicative minimum ticket size: £25 million.

Equity

- We will provide direct equity investments as well as cornerstone investments into externally managed equity funds.
- In the short-term, we will implement equity investments predominantly through external fund managers as we build our internal capability.
- Indicative minimum ticket size: £25 million (platform / fund investment).

Guarantees

- With HM Treasury's support, we will issue sovereign-equivalent guarantees to crowd-in private sector financing on qualifying projects.

- We expect our minimum ticket size for debt guarantees to be significantly larger, in excess of £100 million.

See pages 65-67 for more detail about how our debt, equity and guarantee products could address barriers to investment and crowd-in private capital.

What makes us different

We sit in a unique position between the market and government. This allows us to act differently to other market actors, particularly in our approach to:

- **Concessional finance:** where possible, we will invest on terms in line with other investors. We can go further, where required to deliver on our policy objectives. This includes:

    - taking on risks that other investors are unwilling, or not yet willing, to take in a way that encourages the development of markets.

    - offering preferential terms, including on price and tenor, where that is justified to deliver on our mission and compliant with our legal obligations.

- **Risk:** our risk appetite is different to commercial institutions because we are focused on achieving strategic policy objectives as well as delivering a positive financial return.

- **Flexibility:** we do not have a preferred investment type. We will assess each deal on a case-by-case basis, working to identify the financing structure that best fits a deal's needs and supports the Bank's mission.

- **Partnership:** as a government-backed policy bank, our presence in a deal can help instil confidence with potential investors. We will act as a cornerstone investor in challenging markets.

- **Leadership:** we can provide practical and intellectual leadership, convening partners and drawing on the expertise in our networks.

Local authority lending

£4 billion

for lending to local government

Providing effective finance: we offer finance for high value and complex economic infrastructure projects. We will lend up to £4 billion to local authorities (at gilts + 60 bps), with a minimum loan value set by HM Treasury of £5 million.

Broad scope: we will lend to infrastructure projects aligned with our investment principles and which support national and local government ambitions. This plan sets out where we currently see the greatest opportunities within the Bank's priority sectors, but we are not limited to lending to these sectors.

Place based: we will support authorities that put the benefits to local communities at the forefront of their infrastructure proposals.

Driving good practice: we will work with our local authority borrowers to benchmark their environmental, social and governance standards and reporting.

South Bank Quay - October 2021
£107 million to Tees Valley

Our first local authority deal was a £107 million loan to the Tees Valley Combined Authority (TVCA) for the South Bank Quay development at Teesworks in Teesside.

The investment will transform part of the former Redcar Steelworks site along the River Tees, creating a 450 metre quay to service the offshore wind sector.

A part of Teesside Freeport, the quay will boost the UK's capability in the offshore wind sector, supporting the Government's target to be a world leader in the sector by 2035.

SeAH plan to build a wind turbine monopile manufacturing factory on the site. The quay will play a critical role in the loading out and shipping of these monopiles to the Dogger Bank wind farm.

Our investment will support around 800 high quality jobs directly, with the potential to unlock thousands of jobs in total across the site.

Gary MacDonald, Group Director of Finance and Resources, (TVCA)

The PWLB has fixed payments every six months, while with the UKIB you have the ability to tailor debt repayments, depending on your project. In our case, that was very helpful, because we could apply those to our project and say 'we require some additional flexibilities on the timing of repayments' - we would not get those from the PWLB.

Local authority advisory

Targeted pilot programmes

to develop effective and repeatable financial models to common infrastructure challenges

Since launch, **we have engaged extensively with mayoral combined authorities, local authorities, the devolved administrations and other key stakeholders.**

This highlighted the challenges facing local authorities when trying to deliver ambitious infrastructure projects - particularly new green infrastructure with complex risk profiles and financial structures. We also heard how local authorities face growing challenges recruiting and retaining the right expertise.

Our local authority advisory function will help address these challenges and support local authorities to develop and finance complex infrastructure projects.

We will take a phased approach to building our advisory function as we scale up our internal expertise. In the first phase, **we will run a number of targeted pilot projects over the next 6 months,** working in partnership with local authorities to test where and how we can best add value.

We will identify pilots that address common challenges faced by local authorities and have the potential to help us develop replicable investment models. We expect to launch the first round of pilot projects in the summer and are actively exploring potential projects in mass transit, zero emission fleet, heat networks and retrofit.

We will support the authority as a critical friend - helping them work through the range of complex economic and technological decisions underpinning these projects and better understand the support needed to get other projects off the ground.

Building on these pilot programmes, **we will aim to use our unique position in the market to convene stakeholders across the public and private sector to help identify innovative solutions to these common challenges.** For example, identifying opportunities for local authorities to work together to aggregate demand, or drive standardisation to facilitate investment.

We will work closely with the already well-established ecosystem of support available to local authorities. In designing our advisory service, we have started engagement with existing delivery partners, such as Local Partnerships and the Energy Saving Trust, and want to work with them to ensure our support is complementary.

Project reporting requirements

We want to evidence the impact of every investment we make. To do this, as part of our project due diligence, we will require, as a minimum, the following information:

- **Key Performance Indicator (KPI) metrics:** relative carbon emissions, jobs supported, productivity and private finance mobilised. You can find more information on our KPIs on pages 69-71.

- **Project specific metrics:** including breaking down our impact by sector and geography and more tailored metrics for specific sectors.

- **Alignment with green taxonomy:** we will monitor our portfolio's alignment against the UK Green Taxonomy, when it is finalised, and therefore will check the status of individual projects.

- **Environmental, social, resilience and governance (ESRG) approach:** we will assess how projects manage their direct and indirect environmental and social impact, the resilience of their projects and the robustness of their ESRG governance structures.

- **Material climate and environmental-related financial risk:** we will check projects have incorporated the relevant recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) and the International Sustainability Standards Board.

We will also use this information to assess how our portfolio is performing. We expect our partners to report regularly on their performance.

HOW WE INVEST

How we invest

We assess investments on a case-by-case basis.

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

Assessment against our investment principles is just one part of our decision-making process.

Investment principle 1

The investment helps to support the Bank's objectives to drive regional and local economic growth or support tackling climate change

Investment principle 2

The investment is in infrastructure assets or networks, or in new infrastructure technology. The Bank will operate across a range of sectors, but will prioritise in particular clean energy, transport, digital, water and waste

Investment principle 3

The investment is intended to deliver a positive financial return, in line with the Bank's financial framework

Investment principle 4

The investment is expected to crowd-in significant private capital over time

Investment principle 1

The investment helps to support the Bank's objectives to drive regional and local economic growth or support tackling climate change

Help tackle climate change, particularly meeting the government’s net zero emissions target.

The UK was the first major economy to legislate for net zero. The UK, Northern Irish, Scottish and Welsh government’s net zero and energy strategies set out how the UK will achieve a balance between its national emissions and the removal of greenhouse gases, to keep temperature rises below 1.5°C.

The Climate Change Committee predicts the UK will need to invest an additional £50 billion per year in infrastructure by 2030, particularly in low-carbon power capacity, infrastructure for EVs and the retrofit of buildings.

We will invest to unlock emission reductions to help achieve the UK’s 2050 and Scottish Government’s 2045 net zero targets, prioritising projects that enhance the capability of markets and support sectors to transition to net zero.

Our net zero objective aligns with the government’s **renewed focus on energy security.** We will prioritise projects that both help us transition to net zero and reduce the UK’s reliance on fossil fuels.

We will finance projects that create, scale and accelerate markets beyond the scope of an individual project, growing the country’s capacity to deliver net zero.

We will help the UK adapt to climate change. This includes considering the resilience of the infrastructure we invest in.

Following our launch, HM Treasury reviewed the case for broadening our environmental objectives to include other areas such as supporting the growing market for ecosystem services and nature-based solutions. The Chancellor’s strategic steer to the Bank highlighted the government's belief that there is an important role for the Bank, working alongside other institutions, to support this agenda over time - and this can be done within its existing policy framework and investment principles. We will consider the role we can play in these markets, including any early opportunities to have a positive impact and how that might develop over time.

Support regional and local economic growth through better connectedness, opportunities for new jobs and higher levels of productivity.

The UK is one of the most geographically unequal developed economies and opportunity is not spread equally across the country. There are large variations between cities, and within cities and regions in the UK. There are also complex rural-urban disparities. These significant disparities in growth and productivity across the UK present an urgent and important challenge.

Infrastructure investment – alongside other interventions such as education and healthcare – **can help address these disparities and achieve sustainable local economic growth.**

The National Infrastructure Commission (NIC) identifies three categories of infrastructure investment that support regional and local economic growth. We will focus our investments in these categories:

1. **addressing constraints to growth:** this involves enabling future growth in congested places by investing in capacity upgrades, with the expectation that this will also benefit surrounding areas – e.g. improving transport links.

2. **contributing to transformation:** this involves infrastructure investment alongside wider policies (including skills, land-use planning, research and development, and business support) to increase growth in places with low productivity – e.g. supporting regeneration through economic infrastructure. Opportunities for transformation will also arise from investments that support regions to transition to net zero.

3. **universal provision:** this involves investment to provide a common minimum standard for infrastructure services and working to reduce differences in access and opportunity across the UK – e.g. ensuring a minimum level of broadband provision across the UK.

The government's Levelling Up White Paper sets out twelve missions to spread opportunity more equally across the UK. The Chancellor's strategic steer to the Bank encourages us to target our investments towards three of these missions in particular:

1. **Employment and productivity:** seeking to create a globally competitive city in every area of the UK and closing the gap between the top performing and other areas by 2030.

2. **Transport infrastructure:** improving public transport connectivity across the country by 2030.

3. **Digital connectivity:** delivering nationwide gigabit-capable broadband, with 5G coverage for the majority of the population by 2030.

Our local authority function will support the mission to empower local leaders and communities, especially in those places lacking local agency.

Do no significant harm

Our dual objectives of investing in projects to help mitigate and adapt to climate change, and to support regional and local economic growth across the UK **have huge potential synergies. But occasionally these objectives will be in tension with each other,** especially in the near-term.

Where an investment is primarily to support economic growth, we will ensure that it does not do significant harm against our climate objective.

As we develop our impact framework, we will consider how we measure harm against our climate objective, drawing on existing best practice where appropriate.

Investment principle 2

The investment is in infrastructure assets or networks, or in new infrastructure technology. The Bank will operate across a range of sectors, but will prioritise in particular clean energy, transport, digital, water and waste

Our scope

We invest across the infrastructure landscape, including in new infrastructure technology.

We focus primarily on economic infrastructure.

The Chancellor's strategic steer to the Bank states we should **not ordinarily support projects which are predominantly social or cultural infrastructure.** This includes housing, schools, health facilities, courts, prisons, and sports and cultural venues.

We will consider mixed infrastructure projects, such as town centre regeneration, where there is a significant economic infrastructure component, alongside other sectors that in isolation would not normally be supported.

We will consider projects or technologies that support energy efficiency, including the retrofit of existing homes and buildings, and the decarbonisation of heating.

We will not invest in the construction of new housing, besides the circumstances set out above.

We recognise the value of green infrastructure solutions. The green infrastructure market is still developing, and we do not currently see a pipeline of investable projects. Over the next three years, our investments will be predominantly in traditional built infrastructure. We will consider the role we can play in nature-based solutions and how that might develop over time.

We have five priority sectors set by HM Treasury

- **Clean Energy**
- **Transport**
- **Digital**
- **Waste**
- **Water**

Our priority sectors complement each other – for example the electrification of transport and the production of clean energy. We will support clusters and projects integrating more than one sector, alongside our sector specific investments.

Investing in supply chains can deliver on both our net zero and regional growth objectives. We will explore how we can support and encourage the development of supply chains across our five priority sectors, particularly in green technologies such as offshore wind and gigafactories.

Exclusions

We do not lend or provide 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 CCUS where projects will significantly reduce emissions over the lifetime of the asset, or those supporting the decommissioning of existing fossil fuel assets.

We will not support any fossil-fuel fired power plants, unless part of an integrated natural gas-fuelled CCS or CCUS generation asset. This policy will be updated over time to reflect changes in government policy and regulatory standards.

Clean Energy

Energy is a broad sector that accounted for 48% of UK emissions in 2019. Increasing investment in clean energy technologies is crucial to the decarbonisation of the economy.

The Net Zero Strategy sets out ambitious clean energy investment needs, with an estimated £23 billion of additional annual investment required over the fourth carbon budget period (2023-2027). We can help unlock this finance and we expect clean energy will be the largest sector in our portfolio.

Using the Net Zero Strategy as our guide, we have broken down clean energy into four sub-sectors:

- Power
- Hydrogen, fuel supply and industry
- Heat and buildings
- Greenhouse gas removals

Russia's invasion of Ukraine has brought into sharp focus the need to reduce the UK's dependency on fossil fuels. The clean energy sector is central to the government's renewed focus on energy security.

The British Energy Security Strategy (BESS) aims to increase the deployment of renewables, hydrogen and nuclear power and energy efficiency measures in our buildings.

The emergence of new industries, and transition of existing industries to clean energy, especially where they are clustered together, has the potential to drive regional and local economic growth.

Investment opportunities

Power

- finance the transition of mature renewable technologies to subsidy-free business models
- finance the deployment of new renewable power generation, such as floating offshore wind, with the aim of bringing down costs and increasing scale
- explore how the Bank can support the Regulated Asset Base (RAB) model in attracting private finance into nuclear projects
- finance flexibility and storage technologies, such as battery solutions

Hydrogen, fuel supply and industry

- finance new green technologies, particularly low-carbon hydrogen and CCUS

Heat and buildings

- finance the deployment of retrofit, energy efficiency and heat technologies

Power

Subsidy-free business models: despite solar and wind technologies being well established, projects without a Contract for Difference (CfD) face revenue risks that can limit private investment. We will look to provide further financing to accelerate these markets. Given the increased ambition on deployment in the BESS, we will also monitor and respond to any emerging private finance capacity gaps in offshore wind and solar projects with a CfD. Experienced local authorities may invest in solar and wind projects in their localities to reduce their carbon emissions. We will help finance such projects, where there is a compelling business case.

New renewable technologies: the government's fourth CfD allocation round includes a £75 million pot for new renewable technologies - of which £24 million and £20 million is ringfenced for floating offshore wind and tidal stream projects respectively. We expect the technology risk associated with first of a kind projects to be a barrier to investment despite the CfD model being well-established. The scale and pace of government ambition may also lead to financing gaps. We will look to finance the development of the market, reducing the cost of capital over time. We are open to financing other emerging technologies supported in the fourth and fifth CfD allocation rounds.

Nuclear: the government wants to secure a final investment decision on a new nuclear project by the end of this Parliament, and on further projects in the next Parliament. The RAB model, which is being used in the nuclear sector for the first time, is now in place. Given the quantum of financing associated with large scale nuclear, which is expected to be over £20 billion per project, we will explore what role there might be for the Bank in this area.

Flexibility: storage, interconnectors and demand side responses can increase the flexibility of our electricity system, reducing emissions and saving up to £10 billion of network and generation costs a year by 2050. Our engagement suggests uncertain revenues, and technology risk on most long duration projects, can be a barrier to private sector investment in storage. We will explore the role we can play on both short and long duration technologies, closely monitoring the developing policy framework on the latter.

Hydrogen, fuel supply and industry

Hydrogen: low carbon hydrogen is expected to play a critical role in the transition to net zero. The government expects over £9 billion of private investment is needed in hydrogen by 2030 to deliver on its ambition for 10 gigawatt of hydrogen production capacity.

CCUS: £15 billion of private investment is needed to construct and deliver the early phases of CCUS transport and storage networks, with further investment needed to capture emissions in power and industry.

Policy uncertainty and coordination risk are two key barriers to investment. The government is taking steps to address these by finalising business models in 2022. We will work with the market and government to identify how we can best support first of a kind projects, unlocking opportunities to scale infrastructure and support growth.

Heat and buildings

17% of UK emissions come from heating buildings. Reducing these emissions is critical to achieving net zero and improving our national energy and climate resilience.

Heat networks: barriers to deploying heat networks include high upfront costs and uncertain demand. We will look to finance both local authority and private investment in urban heat networks.

Energy efficiency and retrofit: barriers to deploying energy efficiency and retrofit measures include high upfront costs, low consumer awareness and supply chain challenges. We will explore how we can finance local authority and private projects, including pilots, that will accelerate the deployment of energy efficiency measures.

Greenhouse gas removals (GGRs)

The challenges of decarbonising some sectors completely mean that GGRs will be crucial to meet the net zero target. Direct air carbon capture and storage (DACCS) and bioenergy with carbon capture and storage (BECCS) are examples of engineering based GGRs we consider to be within the clean energy sector. We will monitor the opportunities in this area as policy frameworks are developed. We can invest in nature-based solutions to GGRs that meet our investment principles.

Transport

Decarbonising the transport sector is critical if the UK is to meet its net zero target.

Transportation of people and goods is the largest contributor to UK greenhouse gas emissions, with road transport alone accounting for almost a quarter of total emissions in 2019.

Scaling up the adoption of low-carbon transport solutions and encouraging active travel will decrease carbon emissions, reduce congestion and improve air quality.

Improving transport infrastructure will also drive regional and local economic growth. The National Infrastructure Commission's (NIC) 2021 Baseline Report highlights that the significant variation in the quality of transport provision can affect economic outcomes and people's quality of life.

It will also be important to transition to low-carbon forms of freight.

The UK will need increased levels of investment in transport to meet these goals.

Investment opportunities

- finance electric vehicles (EV) charging infrastructure, working with both local authorities and private providers
- finance local authorities to adopt zero emission buses
- finance the procurement of green rolling stock where there is a technology risk or gaps in market capacity
- finance port infrastructure, particularly where it supports the expansion of green industries
- finance mass transit systems and infrastructure upgrades

Electric vehicles: the government has committed £1.6 billion towards the roll-out of EV charging infrastructure, but further private finance is needed to keep pace with the increasing popularity of EVs. Our local authority lending function will look at opportunities to support the roll-out of public charge points by local authorities. Our private function will seek to invest to accelerate the market in more established areas by deploying debt and helping to lower transaction costs. We can also support the electrification of fleets, including by working with local authorities.

Zero emission buses: a shift to zero emission buses will require new forms of co-financing by the public and private sectors. Both electric and hydrogen buses are being introduced, but the technology is evolving and has higher upfront capital costs. In the short term we will pilot work with local authorities to scale up their zero emission bus plans, including leveraging funding available from the government's zero emissions bus regional area (ZEBRA) scheme. In the long-term, we expect to see costs reduce which will offer more opportunities for different private finance models.

Rail: the government has set an ambition to remove all diesel-only trains from the network by 2040, and to achieve a net zero railway network by 2050. Rail infrastructure is currently largely publicly financed. There may be some opportunities for the Bank to finance green rolling stock.

Ports: ports are critical infrastructure for the future net zero economy and an enabler of regional and local economic growth. We are open to financing port projects that unlock opportunities for the clean energy sector or drive regional economic growth.

Sustainable aviation fuels (SAFs): decarbonising aviation is a huge challenge, with significant technology and investment barriers preventing the large scale production of SAFs. The government is supporting UK industry with £180 million funding for the development of SAF manufacturing plants. Given the investment lifecycle for SAFs is at an early stage, there are likely to be limited opportunities for us in the short-term. We remain open to future opportunities and will monitor progress in the sector as business models mature through to the mid-2020s.

Mass transit and HS2: investments in mass transit can drive local growth, support net zero and devolved decision-making. We will seek to finance mass transit systems where the local authority has identified it as a credible and viable solution. We will consider lending to local authorities that are upgrading their infrastructure, such as stations, to make a success of HS2. These projects are delivered on long timescales and we expect the Bank to be involved at the point where we can offer expertise and advice on delivering sustainable and efficient solutions.

Transport networks

We do not see a role for the Bank to invest in centrally funded transport networks.

West Midlands Combined Authority green buses - March 2022 £10 million loan

Our second local authority deal was a £10 million loan to the West Midlands Combined Authority (WMCA) to help finance the first phase of the new Sprint Bus Route in Birmingham.

The project will increase connectivity between residential and employment areas, speed up journey times and reduce carbon emissions, supporting the WMCA to create a zero emissions corridor by 2030.

Once complete, the project is projected to unlock nearly 4,000 jobs due to the increased frequency and speed of connections between the economic hubs of Birmingham city centre, Solihull and Birmingham Airport.

The project will also help reduce CO2 emissions by decreasing route congestion and bringing new hydrogen buses into service.

Andy Street, the Mayor of the West Midlands and chair of the WMCA:

The support of the UK Infrastructure Bank for this initiative is a real vote of confidence in the West Midlands and we look forward to working with them on future projects.

Digital

The UK has some of the highest rates of digital adoption in the world. Since the Covid-19 pandemic, digital connectivity is even more important because increasing numbers of people are working from home.

Fast, reliable digital connectivity drives regional and local economic growth, particularly in rural communities as it helps businesses grow, innovate and create jobs.

Digital infrastructure will also play an important role in enabling the economy to transition to net zero.

The digital infrastructure sector is fast changing and will continue to evolve rapidly during this decade, with new technologies emerging and a convergence between fixed and wireless technologies. This will create new delivery and business models and feed through into opportunities for other infrastructure sectors.

Investment opportunities

- finance the roll-out of gigabit capable broadband, particularly to harder-to-reach areas
- monitor 5G roll-out and help finance any emerging capacity gaps

Gigabit capable broadband: the government wants to deliver gigabit capable broadband to at least 99% of premises by 2030. Significant investment is needed to deliver this goal – estimated to be £30 billion – with at least £4 billion required in the next 1-2 years. The private sector is expected to reach about 80% of premises without government support. The government's £5 billion UK Gigabit Programme subsidises roll-out to the remaining 20% of premises to ensure no areas are left behind. The market is already struggling to finance the pace of roll-out. We will focus on adding capacity, primarily through co-financing to support government's 2030 target.

5G: the government want a majority of the UK population to be covered by 5G signal by 2027. The NIC's 2021 Baseline Report identified digital infrastructure – including 5G networks – could potentially transform productivity across infrastructure sectors through innovative models, cutting costs and improving service quality. Despite 5G roll-out being led by the main mobile network operators, there may still be some borrowing constraints in the market. We can help increase capacity if financing gaps emerge.

4G

The government has a goal of delivering 4G mobile coverage across 95% of the UK landmass by 2025. We do not see a role for the Bank because existing investment will be sufficient to reach this target, and the Shared Rural Network will support roll-out in remaining harder-to-reach areas.

Fibrus high-capacity broadband - April 2022
£50 million loan

£50 million loan to broadband provider Fibrus to support the roll-out of high-capacity broadband to rural homes and businesses across the country.

Our cornerstone investment facilitated £150 million of private sector capital from other commercial lenders.

The project will benefit properties in rural areas and market towns that have historically had poorer access to digital services than urban areas. It will support ultrafast "full fibre" broadband connections to around 220,000 properties, enabling people to access high-speed broadband to work from home and run businesses online from across the country.

Water

Reliable water supply and wastewater services underpin local and regional economic growth.

These services are threatened by climate change, which is expected to increase the risk of drought and flooding. An increasing population will also create pressure on water resources in some areas.

Addressing these challenges will require significant investment in complex, cross-boundary water solutions, such as strategic supply and transfer infrastructure. This will require new ways of working and new models for financing.

The role of green infrastructure in delivering multiple environmental and social outcomes, such as flood resilience, is becoming increasingly important. Work is ongoing to trial and refine these emerging approaches.

Investment opportunities

- finance projects procured under the direct procurement for customers (DPC) model
- consider the role we can play in nature-based solutions

DPC: the DPC model is a new delivery model for the sector. Ofwat expect water company business plans to consider using DPC where it will deliver the greatest value for customers. The DPC model will result in water companies competitively procuring more aspects of large infrastructure projects, including the financing for these projects. We are aware of several schemes with a combined value of £1 billion currently being developed for tender under the DPC framework. We can support Ofwat and the market in delivering the DPC model.

Natural capital: the government is working to establish business models and build a pipeline of investable natural capital projects. Opportunities may emerge for the Bank to invest in catchment-level water quality and flood attenuation ecosystem services from 2024 onwards. Water companies are also trialling the application of green and grey-green infrastructure solutions. We will consider the role we can play in this space.

Flood defences: for some local authorities, flood defence maintenance and upgrades will be a key infrastructure priority. We will seek to work with local authorities to finance infrastructure investment in these areas.

RAB

We do not currently see a role for the Bank to invest in assets that fall within the RAB funding model in the water sector. Our market engagement has indicated that UK water companies have strong access to private, low-cost capital through this model.

Waste

England's 25 Year Environment Plan aims to double resource productivity and eliminate all avoidable waste, including plastic, by 2050. Wales aims to be a zero-waste society by 2050. Scotland plans to recycle 70% of waste by 2025.

These efforts can create skilled, local employment across all regions of the UK.

Improved resource efficiency will also boost the economy by keeping valuable resources in circulation and reducing carbon emissions. The government has set targets to reduce the amount of municipal waste going to landfill to 10% (5% by 2025 in Scotland) and to recycle 65% municipal waste by 2035. It is also considering other interventions that may significantly shift the policy landscape in the next five years.

Between 1990 and 2019 emissions from waste management fell by 71%. This was largely driven by a reduction in biodegradable waste. However, recycling rates have plateaued, waste emissions are rising and the amount of waste generated in England is increasing.

Investment opportunities

- finance new and retrofitted energy from waste plants that include CCUS or significant heat offtake projects
- support proposals that increase the scale and sophistication of recycling infrastructure

Energy from waste with CCUS or high levels of heat offtake: emissions from energy from waste plants will be a significant proportion of residual emissions in the power sector in the 2030s. We will not invest in unmitigated energy from waste plants. We will only finance projects that help to significantly reduce emissions in the sector. The government has created a support mechanism to improve efficiency and reduce emissions in the waste sector, and is developing further support mechanisms to accelerate these changes. We will look to help establish CCUS in energy from waste by financing first of a kind projects. Our presence in such deals can also bring new investors to the sector and accelerate wide scale uptake of the technologies.

Recycling: during our engagement process we heard achieving recycling targets required significant, sophisticated and long-term infrastructure investment, beyond what the current market could deliver. We are open to financing both local authority and private sector recycling and circular economy projects. We encourage local authorities and industry to engage our support for investable projects that fit national objectives and local ambitions.

Investment principle 3

The investment is intended to deliver a positive financial return, in line with the Bank's financial framework

Return on equity

Every transaction we originate is expected to generate a financial return.

HM Treasury have set us a return on equity target of 2.5-4.0%. This is a portfolio level target.

To deliver on our mission, we will invest in first of a kind and novel projects. Whilst our intention is to generate a financial return on every transaction, some of our investments could be loss-making.

At a portfolio-level we will aim to consistently achieve our return target.

We are not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). As such, we are **not bound by regulatory capital constraints.**

We will operate within economic capital requirements as agreed with HM Treasury. We will build-out our economic capital model and framework as we grow our portfolio.

Portfolio management

We manage a growing portfolio of assets and relationships, including actively managing credit risk, transactional events (drawdowns, repayments, interest charges) and day-to-day relationships (waivers, covenants, information requests).

In addition to assets we originate, we have two existing funds on our balance sheet that were established by HM Treasury before we launched. We also administer and manage, on behalf of HM Treasury, assets originated under the UK Guarantee Scheme.

- **Digital Infrastructure Investment Fund (DIIF):** HM Treasury, through the Infrastructure and Projects Authority (IPA), established the DIIF and the two underlying funds that sit on our balance sheet. The funds support the growth of the ultrafast broadband industry, particularly alternative ultrafast broadband network developers in regional locations, by providing greater access to finance on a commercial basis across the capital spectrum.

- **Charging Infrastructure Investment Fund (CIIF):** HM Treasury also established the CIIF, and the fund sits on our balance sheet. The fund aims to crowd-in private capital into the sector to support the expansion of public EV charge points along key road networks and in residential areas.

- **UK Guarantee Scheme (UKGS):** we manage existing guarantees already issued under the UKGS – previously the responsibility of the IPA. These legacy guarantees are in addition to our ability to issue £10 billion of new guarantees.

Risk management

We will take the risks necessary to achieve our policy ambitions, required financial return and impact. We will do this within the constraints of being a publicly owned arm's length body.

Our risk appetite is different to commercial institutions because we are focused on achieving strategic policy objectives as well as delivering a positive financial return.

To achieve our strategic objectives and remain within our economic capital target at a portfolio level we have **developed appropriate processes and tools to manage our risk taking.**

Individual appetite statements for each major category of risk clarify how much risk we are willing to take in achieving our strategic objectives. These are monitored monthly to ensure we stay on track.

We have designed and will embed an enterprise risk management framework across the Bank. It will support the management of individual risks, ensuring there are appropriate controls over our operational and financial risks (e.g. credit risk), legal and regulatory compliance, and financial crime.

The framework will be overseen through our governance structure, with independent assurance from internal audit.

Further detail of our risk management framework, including the overarching risk appetite statement and principal risks will be set out in our Annual Report and Accounts.

Investment principle 4

The investment is expected to crowd-in significant private capital over time

We increase infrastructure investment by ensuring our investments are additional to the market.

By focusing on areas with an undersupply of private sector financing, our investments will be additional to the market. Our investments will not displace the market because we will not invest in well-financed areas.

In our first year, we closed 7 deals worth £610 million – mobilising over £4.2 billion of private capital.

Our additionality goes beyond our financial capacity. By reducing barriers to infrastructure investment, our private sector investment projects will crowd-in private capital to deliver our strategic objectives in a way that would not have been achieved by the market alone.

Most infrastructure deals are bespoke. Our investment strategy is designed to be flexible and leverage our ability to invest across the capital structure. We will assess each deal on a case-by-case basis to identify the financing structure that best fits a deal's needs and supports the Bank's mission

The list below illustrates the types of products we could use to reduce barriers to investment and crowd-in private capital.

- **Frontier investments:** we can increase investor confidence by acting as a cornerstone investor where there are high technological, design and/or commercial risks. This could involve any of our debt, equity or guarantee products.

- **Scaling proven technologies at pace:** we can accelerate market formation and bring down costs more quickly. This could be through credit enhancement products such as mezzanine debt, or first-loss guarantees.

- **Coordination failures:** we can reduce fragmentation between different actors and business models. This could be through credit enhancement products such as mezzanine debt, or first-loss guarantees.

- **Market capacity:** we can expand market capacity, where it is struggling to meet investment need. This could involve adding liquidity through senior debt or guarantees.

- **Universal provision:** we can support the roll-out of infrastructure to areas where the market may not invest alone. This could involve deploying liquidity such as senior debt.

- **Policy and regulatory uncertainty:** our unique position between the public and private sector means we are better placed than private investors to invest ahead of policy certainty.

- **Cost of capital:** where required to deliver on our policy objectives, we can offer concessional finance, including by offering preferential terms on price or tenor.

MEASURING
OUR IMPACT AND ADDITIONALITY

Our ambition

We want to demonstrate the impact and added value of our investments against our two strategic objectives and HM Treasury's target for the Bank to crowd-in £18 billion of private capital. Our ambition is to do this for every deal, across our portfolio and over time.

Assessing impact and additionality will help the Bank understand progress against its strategic objectives, guide investment decisions and report the Bank's value to its shareholder and stakeholders in a transparent and accountable way.

Our aim is to:

- draw on best available evidence and methods
- robustly assess investments qualitatively and quantitatively to inform investment decisions
- ask projects to report on data over the duration of our investment (as explained in project reporting requirements on page 36)
- develop the results chain from inputs to outputs to outcomes – from the infrastructure we finance to how our investments mobilise others, and shape markets
- evaluate the impact and additionality of our investments afterwards to show how well we have delivered against our triple bottom line over time.

Triple bottom line		
Achieving climate change and regional growth policy objectives	Generating a financial return to ensure we are an enduring institution	Crowding-in private capital
KPI: relative carbon emissions (tCO_2e) **KPI: employment (# of jobs supported)** **KPI: productivity (GVA/hour)**	**KPI: return on equity**	**KPI: private finance mobilised**

Challenges to measuring our impact

Evidencing the full impact and additionality of our investments will mean we need to work through a few challenges.

What we can count as our share of the impacts: our KPIs measure only direct impacts that we can attribute to UKIB's investment. In the Teesside example below, our finance in the Quay is only part of what would enable the installation of an offshore windfarm so we will not attribute the impacts from a windfarm to the Bank.

Our direct impacts will not always tell the full story: we know that infrastructure investments can sometimes increase emissions in the short term, but in the medium to long-term we will set out how our contributions enable the UK's Net Zero target.

Understanding systems dynamics of our investments: we also want to understand and consider how we will indirectly be mobilising others, shaping markets, the local economy and infrastructure systems. We plan to develop 'results chains' that we can use to evaluate our impact and our value add.

Exploring robust methods, where business models are weaker: we also recognise that measuring impacts of place-based, nature-based and resilient investments will require more robust methods beyond our approach to Environmental, Social, Resilience and Governance (ESRG) screening.

How we measure our impact and additionality

We aim to invest in projects that demonstrate a positive impact, and a need for our involvement.

We are going to track this through a small set of direct KPIs which align with our investment principles and triple bottom line and help inform our decision making in a quantifiable way.

Our intention is to go beyond these KPIs. We use other metrics and evidence to guide our investments and make decisions against our mandate in the light of all the information that is available to us. For example, on digital investments we would expect to capture connectivity metrics, and wider local and regional economic growth metrics, that go beyond our employment or productivity KPIs.

We will develop our approach over time as we build our capability, expand our portfolio and learn from the investments we make.

Measuring impact on our strategic objectives

Our KPI for our climate change objective is:

- **Relative Greenhouse Gas Emissions (tCO2e):** This measures the total carbon dioxide equivalent emissions directly from a project over the lifetime of our investment, compared to a counterfactual – e.g. for a renewable energy investment, this is compared to the electricity generated by an equivalent gas turbine or to a grid average carbon intensity as appropriate.

Our KPIs for our regional growth objective are:

- **Employment (number of jobs):** this captures jobs directly supported by the bank's investments over the lifetime of our investments. This includes newly created jobs and those jobs maintained or protected.

- **Productivity (GVA/hour):** this measures the extent to which the bank's investments improve productivity.

Measuring additionality and crowding in

Additionality is dependent on market sentiment and appetite. We assess this on a case-by-case basis for each potential deal – this is described earlier in the why we are needed (pages 23-28) and investment principle 4 chapters (pages 65-67).

Our intention is to focus on where there is an undersupply of private sector financing so that, by reducing barriers to investment and market failures, we can crowd-in private capital.

Given HM Treasury's target for the Bank to crowd-in £18 billion of private capital, our KPI for measuring additionality and crowding-in is aligned with this target:

- **Private finance mobilised (£million):** This measures the amount of private finance mobilised for each investment, conditional on the Bank being additional in the deal.

This KPI captures the full face value of the private sector's finance in a deal, not just the amount the Bank can claim to have 'crowded-in' or 'leveraged'. We are using the fuller mobilisation figure because there will be an element of judgement and subjectivity to how much is claimed in each deal. The methodology for this KPI is consistent, robust and commonly used by other public sector organisations.

We will look to broaden how we assess additionality and publish our approach.

An example from our investment in South Bank Quay in Teesside

This £107 million investment in South Bank Quay in Teesside will directly support 800 jobs, but the quay is part of a wider transformation of the former Redcar steel plant area and will indirectly support 3,100 jobs.

This investment demonstrates how we are taking a holistic approach to assessing our impact – both direct and indirect.

The Bank measures the direct impact of its investment in its KPIs and, as the Quayside is largely a construction project, the Bank's finance means 169,400 tCO_2e are created in construction and 9,138 tCO_2e in annual operations.

Yet, we are confident making this investment because of its indirect impacts. South Bank Quay contributes to the UK's Net Zero target as one of two new deep-water quays being developed to support the construction of offshore wind farms. Increasing port and manufacturing infrastructure is critical to meeting the UK's target of installing 50 GW of offshore wind capacity by 2030.

South Bank Quay could enable the production of 1.5 GW per year of offshore wind capacity. That offshore wind could mitigate 2.3 million tCO_2e per year (when the electricity is compared to that from gas turbines), equivalent to Sheffield or Falkirk's annual emissions. The Quay's direct construction emissions would be mitigated indirectly in less than four months of the operation of a 1.5 GW wind farm.

Developing our ESRG capability

Our strategic objectives ensure that our investments align with ESRG principles. To date, we have considered the ESRG risks and policies of our counterparties.

We will develop our ESRG policy and framework over the next year. This will incorporate resilience to climate change as an additional pillar to form an ESRG framework.

We collect data from each investment to meet reporting standards such as the Taskforce for Climate-Related Financial Disclosures (TCFD), the forthcoming Sustainability Disclosure Requirements, which shall include Green Taxonomy reporting, and any other relevant disclosures.

Building credibility over time

We are going to be judged over time on whether we have accelerated infrastructure investments, helped shape markets, addressed market failures and investment barriers and crowded-in private finance. The best way for us to demonstrate this is by evaluating our investments to test our assertions.

We will build-out our impact function over time to help guide our investments by:

- considering how to capture our full contribution to the UK's net zero target as well as our wider local economic growth impacts.
- testing these KPIs further and considering other metrics.
- exploring tools and methods for measuring, benchmarking and evaluating our impact at different levels.

LOOKING FORWARD

Looking forward

This first strategic plan marks a crucial step in our development.

It sets out how we intend to achieve our mission to increase infrastructure investment, the role we will play, the challenges we will address, and where we think we can add the most value in the near-term.

We have achieved a lot, but there is more to do. Over the next year we will continue to scale-up, recruit permanent staff, complete more deals and contribute to tackling major infrastructure challenges.

The delivery of this strategic plan will be achieved through the talented staff that join the Bank from across the private and public sectors.

Our priorities and focus will develop as we grow and mature. This plan will be reviewed and updated by the Board during 2023.

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