

Financing Heat Decarbonisation

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UKIB: investing to accelerate net zero and drive regional and local economic growth



Mission

To partner with the private sector and local government to increase infrastructure investment in pursuit of our two strategic objectives



Objectives






- Tackling climate change – helping to meet government's 2050 net zero emissions target
- Supporting regional and local economic growth – providing opportunities for new jobs and higher levels of productivity through better connectedness



Principles

- Supporting the Bank's objectives to tackle climate change and/or drive regional and local economic growth
- Investing in infrastructure assets or networks, or in new infrastructure technology
- Delivering a positive financial return, in line with the Bank's financial framework
- Crowding in significant private capital over time

UKIB is investing £22bn across the capital structure, focused on five priority sectors

 <p>Clean energy</p>	 <p>Transport</p>	 <p>Waste</p>	 <p>Water</p>	 <p>Digital</p>
<p>Renewable electricity, hydrogen, CCUS, heating and supply chain</p> <p>Heat Networks</p> <p>Retrofit</p>	<p>EV and hydrogen infrastructure, hydrogen vehicles, and ports</p>	<p>Enhancing UK's recycling infrastructure and decarbonising energy from waste</p>	<p>Adding to UK's water security, and investing in nature-based solutions</p>	<p>Significant investment in fibre to the premises, and looking at 5G opportunities</p>

Steers from HM Treasury encourage UKIB to explore wider sectors for which we can provide support, e.g., nature-based solutions, semiconductors and critical minerals

To date, we have invested over £3.78bn, unlocking £11bn in private capital, and over 10,600 jobs.

Our Offer

**UKIB has £22bn financing capacity; £8bn in debt & equity; £10bn in guarantees; and £4bn Local Authority loans.
UKIB invests on commercial terms appropriate for risk taken.**

✓ What we do

- Finance Capex incl. for demonstrator sites
- Provide financing in environments of
 - Regulatory uncertainty
 - Technological uncertainty
 - Market uncertainty
- Crowd in other sources of capital
- Invest at all levels of the capital stack: from common equity to senior debt and everything in between
- Lend to Local Authorities at gilts +40bps
- Provide an advisory service to Local Authorities

✗ What we don't do

- Act as project developer or sponsor
- Share our pipeline with investors
- Provide revenue guarantees or grants
- Take a controlling equity stake
- Not in mandate (illustrative, not exhaustive):
 - TRLS 1-6 or projects primarily for R&D or innovation
 - Social Infrastructure (eg housing, schools, hospitals, cultural venues)
 - Supply chain sectors which do not deliver on our strategic objectives

Heat Networks

UKIB's approach to Heat Networks



- High Upfront Capex Costs**
Significant fixed requirements for infrastructure
- Cost of Heat**
Constrains revenue generation with gas as counterfactual
- Offtake Uncertainty**
Impacting investment case
- Underdeveloped Supply Chain**
Constrains competition and limits cost reduction and innovation
- Complexity in Delivery**
Coordination challenge across public and private
- Regulation**
Zoning in development but early stage

UKIB interventions

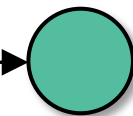
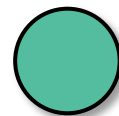
Small niche market
Grant reliance
Limited private sector investment appetite

We are here

- **Risk appetite** to lean into uncertainties around initial construction, roll out and market take-up
- **Flexible capital** to calibrate repayments to the uncertainty of net cashflow generation
- **Tailored finance** to suit the requirements of individual opportunities - with pricing reflecting existing international track-record and benchmark asset classes
- **Scale contribution** with the ability to provide a meaningful proportion of a project's cost (minimum ticket size £25m)
- **Local Authority focus** with a specialised advisory and funding arm to help Local Authorities develop schemes

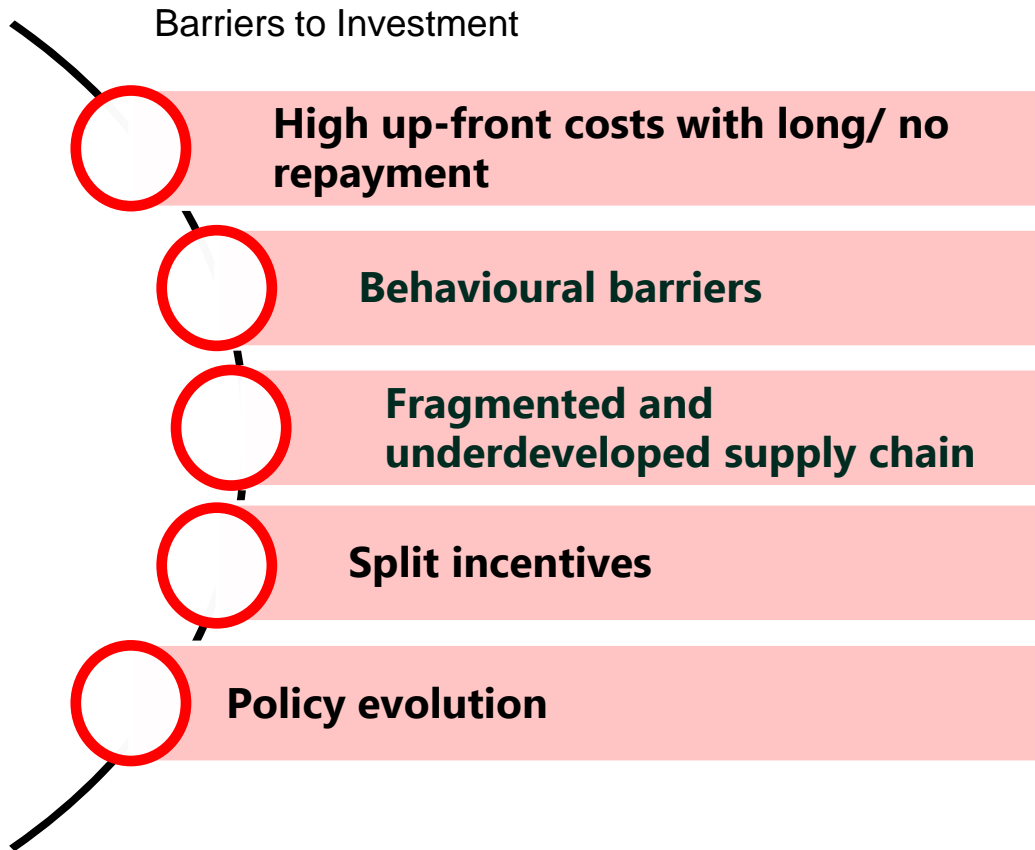
Mature infrastructure asset
Wide access to capital markets
Utility-style stable long-term returns

We want to be here

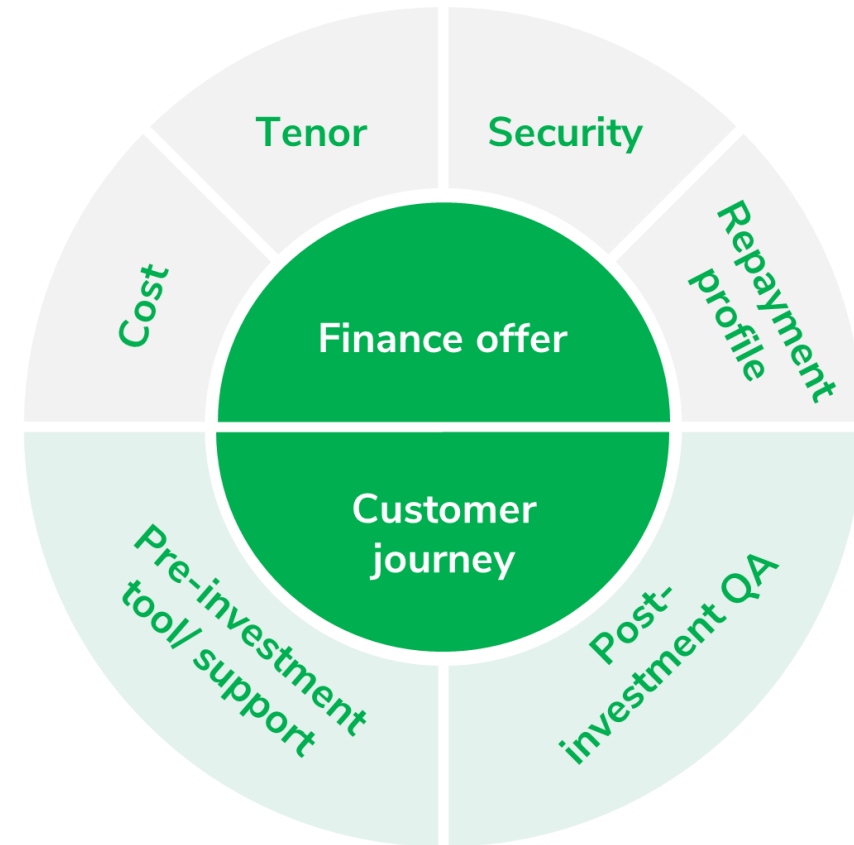


Retrofit

UKIB Approach to Retrofit

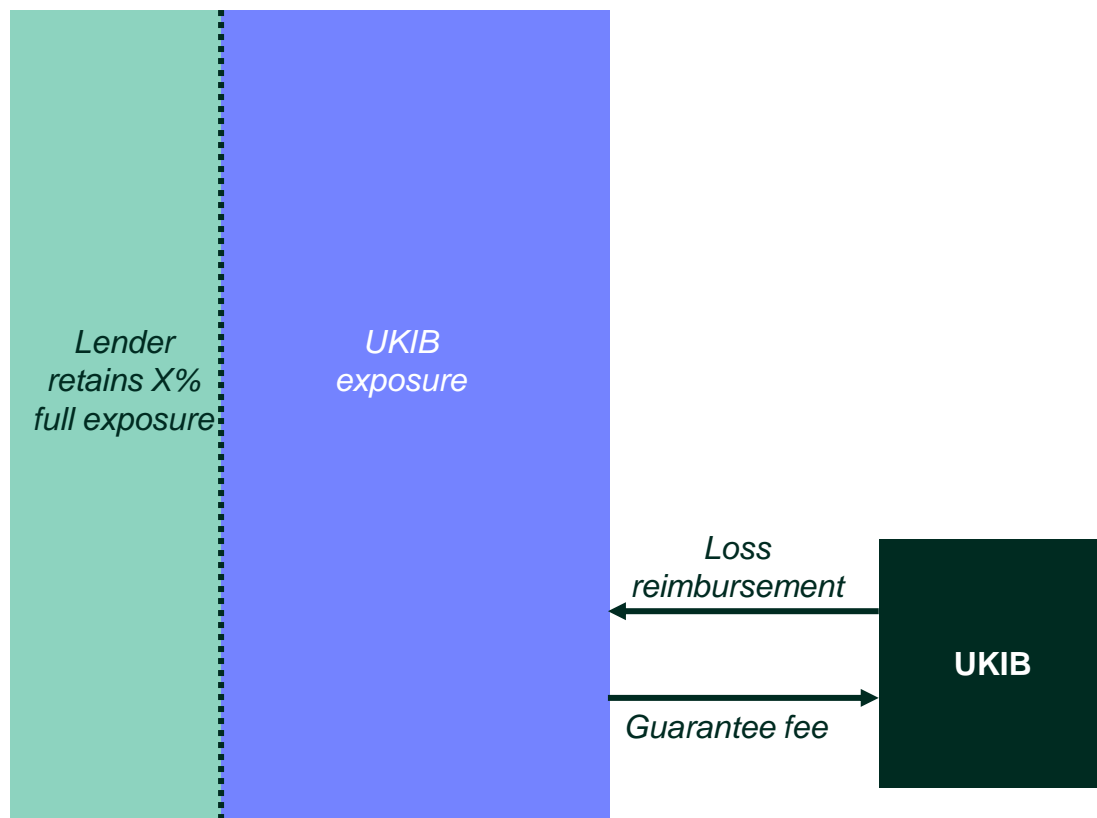


Finance can't address all of these but we can help



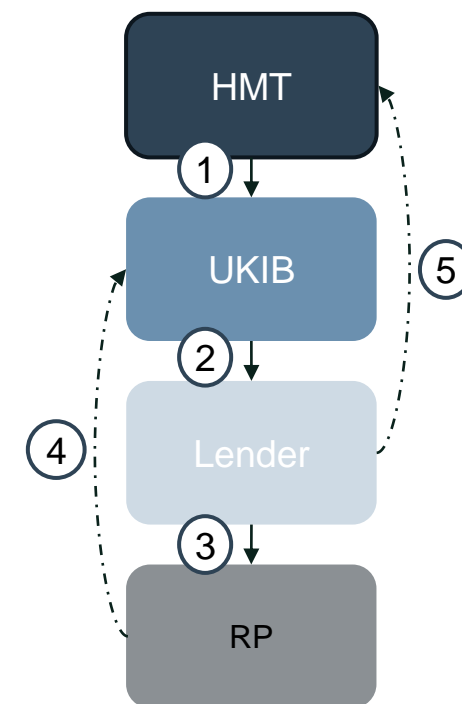
Social housing retrofit guarantees – example structure

Retrofit loan portfolio



Guarantee mechanism

- 1 HMT has provided UKIB with the Sovereign Infrastructure Guarantee ("SIG")
- 2 UKIB guarantees payment obligations by RPs to the lender
- 3 Lender provides funds to RPs in accordance with their normal credit processes
- 4 Lender pays UKIB to take exposure to losses under a Guarantee and Reimbursement Agreement
- 5 In the event UKIB does not pay out on guarantee in time, claim falls on HMT



UKIB Retrofit Guarantee policy conditions

1. Eligible Spend

Why? To ensure funds are spent on appropriate retrofit measures.

How? Agreed list of eligible measures (can be updated as technologies develop, if all parties agree).

See next slide

2. Standards of works and materials

Why? To reduce risk of poor-quality works.

How? Minimum requirement is compliance with Building Regulations.

- Low carbon products must be [MCS](#) certified
- [PAS2035](#) standard encouraged but not required

3. Quality Assurance

Why? To provide assurance work is delivered to agreed standard; with dispute resolution & remediation if needed.

How? An independent third party must assure quality in most circumstances. [TrustMark](#) Licence Plus is the default option for all works not carried to PAS2035 standards.

4. Reporting

Why? To assess impact.

How? Reporting requirements vary between lenders; but aligned with the [Sustainable Reporting Standards](#) for Social Housing (SRS) framework.

Illustrative list of eligible measures for retrofit spending

- **Low carbon heating**
 - Air Source heat pumps
 - Water source heat pump
 - Ground source heat pump
 - Shared loop ground source heat pumps
 - High temperature Heat Pumps
 - Heat Network connection
 - Solar thermal
 - Electric boiler
 - Electric heaters
 - **Note:** Biomass, biogas or hydrogen heating are not eligible.
- **Building light and heating controls**
- **Low energy lighting**
- **Ventilation / cooling measures** including installation of low-carbon cooling systems
- **Insulation- building fabric**
 - Cavity wall insulation
 - Double glazing
 - Dry wall lining
 - Underfloor insulation
 - Loft, tank & pipework and other insulation
 - Roof insulation
 - Secondary glazing
 - Internal wall insulation
 - Room in Roof insulation
 - Insulation- draught proofing
 - Draught proofing
 - Energy efficient external doors
 - Radiator reflective foil (external walls)
- **Small-scale renewable energy**
 - Solar PV
 - Wind turbine (below 0.5MW)
 - Battery storage
 - Small hydropower
- **Resilience measures**
 - BS 851188 standard products to enhance resistance to flooding
 - Measures to enhance resilience to flooding such as resilient wall and floor finishes
 - Resilient insulation
 - Measures to enhance resistance to heatwaves such as external shutters
- **Water efficiency measures**
 - Indoor water-efficient fittings
- **Energy efficiency equipment & EV charging infrastructure**
- **Biodiversity & habitat creation**
 - Sustainable drainage measures on the estate (for e.g. swales, rain gardens, retention ponds, permeable paving)
 - Wildflower meadows and verges
 - Habitat creation, e.g. ponds, hedgerows, trees, green roofs

Thank you

For more information about the UK Infrastructure Bank,
or to contact us, visit www.ukib.org.uk.



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