UK INFRASTRUCTURE BANK

UK Infrastructure Bank

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Neville Street
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11th August 2022

Dear Lord Bridges,

When I and my Chair, Chris Griggs, came before you on the 17th May you requested that I provide a note about the role UKIB could play to help unlock finance for retrofit in the UK.

Energy efficiency is one of the quickest ways to unlock carbon savings, reduce energy demand and ease the cost of living pressure on consumers. We recognise energy efficiency measures as essential to keeping the UK on track to meet its climate targets. It has become an even more urgent national priority given the ongoing high energy prices and threat to energy security driven by Russia, and this was highlighted in the strategic steer given by our shareholder earlier this year.

Where finance is key to unlocking progress, UKIB will seek to play an active role. To that end our recently published strategy makes clear that we will consider projects or technologies that support energy efficiency, including the retrofit of existing homes and buildings, and the decarbonisation of heating. Financing the deployment of retrofit, energy efficiency and heat technologies is one of the 17 investment opportunities we have identified, and we encourage all projects that meet our investment principles to apply for financing – we are keen to help suitable projects happen at pace and scale. We are also actively exploring potential pilot projects for our Local Authority advisory function in heat networks and retrofit.

Heat network infrastructure will be an important element of the efforts to retrofit our building stock. It provides a practical decarbonisation solution that can be delivered at scale in densely populated environments, can adapt to accommodate emerging technologies, and can be more efficient by enabling use of waste heat and consolidating heating sources. Barriers to deploying heat networks include high upfront costs and uncertain pace of demand. Heat networks are an area where patient capital is required to support strategic scale infrastructure. As such we have identified heat networks as a good example of where the Bank can help the market to transition away from subsidy and rapidly increase the size of individual projects. We could also have a role in creating a path for other, more risk averse investors to follow into the sector. We are therefore looking to finance both local authority and private investment in urban heat networks as quickly as possible.

We continue to explore opportunities in domestic building retrofit. It is a huge task to improve the energy efficiency and replace gas heating systems within tens of millions of homes, and it is an area where finance, regulation and incentives will play vital, complementary roles. Barriers to deploying energy efficiency and retrofit measures include high upfront costs, low consumer awareness and supply chain challenges. Our engagement to date suggests that access to finance on terms we could provide is not the main barrier to delivering the levels of investment that need to happen. We will keep this under review as demand increases and the market matures. In the meantime, the customer journey needs to be significantly simplified and innovative business models need to address prohibitively high upfront costs. We are proactively engaging with partners with expertise in these areas to explore how we could finance local authority and private projects, including pilots, that will accelerate the deployment of energy efficiency measures. This could also include retrofit in non-domestic buildings.

We are also exploring pilots of a place-based approach, where retrofit of the majority of buildings in a designated area is delivered as one big project, regardless of tenure and building usage, in order to create a reliable pipeline of local demand to enable local businesses to invest and grow. We are collaborating with the private sector and with Local Authorities at the fore front of climate action, where they can use their buildings and social housing as anchor demand to grow local retrofit skills bases and supply chains. Evidence suggests that with a critical mass of medium to long term local demand costs of retrofitting can be reduced dramatically, if delivery complexity, regulation and incentives can be aligned across multiple delivery partners.

Yours sincerely

John Flint

Chief Executive Officer

CC: Chris Grigg CBE