Dear Chancellor,

We welcome the announcements made in the Budget about the new UK Infrastructure Bank, which will play an essential role in driving the UK's green industrial revolution. With a clear mandate and sufficient capitalisation, the National Infrastructure Bank will be able to shape markets and crowd in significant private investment, delivering a substantial share of the investment planned under the National Infrastructure Strategy and supporting the government's levelling up and net zero policy goals.

The scale of the overall challenge of investing in the UK's net zero transition has been set out by the Climate Change Committee. The 6th Carbon Budget recommended that to get the UK to net-zero additional infrastructure investment will need to scale up from £10bn per year in 2020 to £50bn annually by 2030, continuing at that level through to 2050.

In this letter we set out some of our immediate reactions to the preliminary information released in March about the UK Infrastructure Bank, together with some of our hopes for the next phase of the design process and the further detail to be announced this Spring.

Functions and Governance

We are delighted to learn that working with local authorities will be a core tenet of the UK Infrastructure Bank's role. We recommend that the Bank's governance and operating structures should reflect the whole of the UK, providing its management team with a deep understanding of the local resources and networks available to support local infrastructure.

We recommend that a robust stakeholder engagement strategy is built into the design of the UK Infrastructure Bank from the start. This will support its management in making decisions based on the
best available scientific evidence and avoiding being unduly influenced by incumbent or vested interests. Key stakeholders should be represented on the Bank's board to strengthen independent governance for example civil society, Trade Union and scientific representatives.

We support the government's view that green jobs and green infrastructure will be essential to achieving sustainable economic growth in the UK. We recommend that the UK Infrastructure Bank work with unions to design and implement a strategy to create good jobs plans for all projects to avoid the creation of low-paid, insecure jobs that could damage the levelling up agenda.

We were pleased to learn that the UK Infrastructure Bank will offer an advisory service for local authorities and other project sponsors. We hope that in Spring, the government will say more about how the Bank will help these actors overcome resource issues, expertise and skills gaps at the local level and how it will work with other public finance institutions.

Capitalisation and Investment Approach

We were delighted to learn that the UK Infrastructure Bank can borrow. This will allow the UK Infrastructure Bank to make full use of its capital and market position, in a way that the previous Green Investment Bank was not able to do. Another positive signal is that the UK Infrastructure Bank will also be capitalised at a higher level than the Green Investment Bank and will be able to grow through recycling and retaining return on investments.

However, we note that with only £5bn of paid-in capital the UK Infrastructure Bank will not initially be fully equipped for the task at hand. By comparison, the UK received up to £13.5 billion of funding from the European Investment Bank in the 18-months before Brexit. We would welcome a clear signal from HM Treasury in Spring of its long-term commitment to scaling up the Bank's capitalisation over time to substantially higher levels.

We were delighted that the UK Infrastructure Bank will bridge gaps in the market and crowd in private finance. To achieve this goal and enable those investments most in need of support we recommend that the Bank's overall approach should include the provision of patient and development capital. Where markets are not already providing capital, or are emerging and critical to delivering net zero and environmental goals, the Bank's role should be to attract capital to new areas, operating in a flexible way and with a clear exit strategy. Success in this area will also require stable, long-term policy signals to markets, particularly in relation to levelling up and the net zero transition as economic goals for the UK, and the importance of climate-resilient investment and innovation.

Strengthening and operationalising the Bank's mandate

One of the UK Infrastructure Bank's core objectives is to help tackle climate change, including meeting the UK's net zero emissions target. We recommend that to operationalise this goal, net-zero should be used as an investment screen in combination with a 'do-no-significant-harm' principle which sets out minimum thresholds for social (e.g., employment quality) and environmental impacts. The Bank's approach to net zero screening could be guided by, and should at least align with, the UK’s planned Green Taxonomy and should be guided by objective expert advice. Projects that increase greenhouse
gas emissions or block better net-zero technologies should be explicitly excluded, as should projects relying significantly on offsetting or capturing their emissions in order to be low-carbon.

In the Spring announcement we hope to see the Bank’s objectives expanded to include support of the targets in the upcoming Environment Bill. Climate adaptation and resilience should also be among the Bank’s investment priorities together with nature-based solutions, nature restoration and supporting the circular economy. By combining the Bank’s levelling up objective with a broader environmental remit, the UK Infrastructure Bank could go beyond net-zero and become the world’s first ‘sustainability net positive’ public bank.

In the March budget announcement HMT committed to report the contributions of green gilt spending towards social benefits such as job creation and levelling up. We recommend applying a similar approach to reporting the impact of investments made by the UK Infrastructure Bank.

**Future-Fit Infrastructure**

The UK Infrastructure Bank should take a broad and ambitious definition of infrastructure, reflecting the UK’s future economic growth opportunities, encompassing transport, clean energy, energy efficiency, the built environment and nature restoration infrastructure, and support for innovation. The investment principles to be announced in Spring will be an opportunity to expand the current working definition and ensure that the Bank is as flexible and responsive to address the most pressing market failures that prevent investment in future-fit infrastructure.

We hope to see the Treasury set out in Spring the infrastructure sectors that will be a priority for investment, in order to prime the market. According to the Climate Change Committee, £360 billion of investment will be required to make the UK’s buildings net-zero, making this one of the most critical infrastructure needs facing the country and the Bank. We also hope to see the Bank able to fund a range of projects necessary for a UK net-zero transition, including smaller projects like smart local energy systems.

**In Summary**

We hope that the UK Infrastructure Bank will be a flagship success for the UK. This new institution will play a central role in stimulating private investment to generate sustained growth in UK productivity and output. It will have the power to set international best practice and demonstrate successful delivery of investment for green recovery, acting as a vital tool for financing the UK’s economic transition to net-zero emissions. A successful Bank will be a strong legacy of the UK’s leadership on green finance in the year of its COP26 and G7 Presidencies, and into the future. Both the private and public sectors are calling out for the new Bank to succeed, and we stand ready to support you in seizing this opportunity.

Yours Sincerely,

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Dr Andy Kerr, UK and Ireland lead, EIT Climate-KIC
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