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**Insights**

# THE UK GOVERNMENT'S DATA CENTRE COVENANT EXPLAINED

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Summary

The Autumn Budget 2026 delivered a Data Centre Covenant policy initiative designed to keep AI benefits in Britain and champion home-grown data centre capacity. The Government estimates that Britain needs 6 GW of AI data centre capacity by 2030 to cement Britain's position as a player in the new AI world.

The Covenant is a consolidation and strengthening of existing policy and proposed reforms, with Government supporting faster and more certain delivery of strategic data centres, in return for responsible development that delivers lasting benefits for communities.

A new Ministerial Control Centre will be established to provide support for strategic data centres.


## The Covenant

The Covenant sets out new tests all data centres are encouraged to meet over and above current regulatory and consenting requirements, but strategic data centre developers must meet the new tests if they want to qualify for the provision of the proposed Government support and assistance.

The tests are:

- data centres should meet their fair share of energy costs they create - so households, communities and other businesses do not pick up the bill.
- strategic data centres should agree a Local Benefit Plan that commits to substantial investment, developed with the local community and linked to the development's size.
- data centres should use energy and water efficiently (with new facilities designed to achieve a PUE of 1.3 or better), minimize demand for public water supplies by using technologies such as closed-loop water systems and  design projects to capture and reuse waste heat where

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there is a viable local user. Strategic data centres should report annually on their energy and water use, efficiency, emissions, heat reuse and participation in flexibility services.

- developers should create good, well-paid jobs that last beyond construction. The most strategically important data centres will be expected to make a meaningful contribution to the development and deployment of British AI hardware in the UK.
- data centres should provide secure, resilient UK access to compute for critical services and national priorities.

The tests will be kept under review and updated as necessary to ensure that commitments remain proportionate and deliver clear value to communities and the wider UK.

By announcing the Covenant during the Budget, Government has signalled that data centre build-out is a policy priority of the highest order.

## Consolidation

The new Ministerial Control Centre, chaired by the Minister for AI, will consider support for strategic projects. Proposed measures for strategic data centres, at both transmission and distribution level, include the following, subject to the applicable legal and regulatory framework, detailed implementation arrangements and technical assessment:

- reallocating grid capacity from departing projects in the connections queue to strategic projects;
- reserving future grid capacity for strategic projects;
- identifying pockets of spare capacity and allocating it to strategic projects;
- facilitating earlier connections, including pre-2030; and
- for “exceptionally strategic” projects, allowing temporary on-site generation under a tightly controlled framework.

Most of the Covenant measures form part of existing policy and regulatory initiatives and consultations, in particular the OFGEM consultation (to which the Government responded on Budget day) *Accelerating electricity network connections for strategic demand.*

Not all the Covenant tests are new either. The Government’s 2025 *Delivering AI Growth Zones* paper emphasized local jobs, skills, investment and benefits for host communities, including government funding for local skills and AI adoption. It also linked electricity-price support to measurable system benefits and said the approach should impose no additional cost on other electricity users.

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The reference to tightly controlled temporary on-site generation is intriguing. Arguably any generation that helps ease capacity constraints and leave it free for other projects should be welcomed, whether temporary or permanent. Developers are already actively progressing this approach so it is unclear why this would need to be tightly controlled for strategic projects seeking to unlock the Covenant benefits. The concern may be that temporary on-site power could become permanent. If a developer is also progressing a grid application, this could result in a new grid capacity hoarding scenario and/or compromised network planning.

From a practical perspective the reference to temporary solutions is positive. Bridging solutions could make a very significant contribution to meeting the primary policy requirement – deployment of data centres as soon as possible.

## The bargain

It is the explicit linkage between tests and measures and the "bargain" between Government and developers that is novel. The bargain:

- through the establishment of the Ministerial Control Centre, reflects a more coordinated cross-government approach, alongside the existing roles of DESNZ, Ofgem, NESO and network companies, to support strategic projects;
- emphasises the drawing together of a number of workstreams across Government, into a more centralized and coordinated policy; and
- is an acknowledgement of the scale of public opposition to data centre construction and operations, which if not meaningfully countered at a local level may become entrenched, joined up and a material block to data centre delivery.

## Implementation

There are no definitions in the Covenant of "strategic" or "exceptionally strategic". Government will publish a Strategic Framework Document providing details of the scope, criteria, and process for selecting which projects can benefit from the new measures, in due course. Government will also publish details of the projects it considers to be strategic and directions to NESO on how they should be prioritized under the new methodologies.

The Planning and Infrastructure Act 2025 will be a key statutory mechanism for the electricity-connections measures. Section 18 of the Act will be used to designate plans to identify strategically important projects. Section 14 will be used to amend connections methodologies, codes, and licences (as appropriate) so that NESO and network companies can implement the measures referred to in the Covenant.

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It is intended that the criteria and processes will be implemented by the time of the second Gate 2 connections application window, which is scheduled for mid-2027. Therefore, it is likely that, as for generation projects that went through the first Gate 2 process, demand prioritization and strategic assessments will form part of the Gating process from 2027 onwards.

The Covenant policy paper does not explain precisely when evidence must be submitted by developers to demonstrate compliance with the tests, who will assess compliance, or how commitments will be secured and enforced. That detail will follow. In principle developers who may wish to benefit from designation of their project as strategic will need to plan for and resource the commitments at the appropriate time. The appropriate assessment and enforcement mechanisms, and the respective responsibilities of government, regulators, planning authorities, NESO and network companies, remain to be clarified.

## A two-tier data centre market

The Covenant points towards a data centre sector being divided between strategic and non-strategic projects. Strategic projects will be prioritized and assisted by Government in a manner that will not be available for non-strategic projects.

Developers are now fully on notice that positioning their project as strategic and meeting the Covenant tests is the way to maximize the prospect of obtaining an electricity connection with an advantageous connection date.

Where that leaves developers of non-strategic projects is not yet clear but projects in less capacity constrained/sensitive locations, smaller projects and those developments intending to procure capacity other than through the grid, may still have a viable future.

### Related capabilities

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