



Special Virtual Roundtable Discussion on How the UK Infrastructure Bank Will Operate

The Infrastructure Forum were delighted to be joined by two senior officials right at the heart of the creation of the UK Infrastructure Bank (UKIB), to explore its design and the way it would operate – Matthew Vickerstaff, deputy CEO of the Infrastructure and Projects Authority, and John Staples, Deputy Director for Infrastructure, Digital and Culture at HM Treasury.

The Forum had a long-term interest in this subject and its submissions went back quite some time, when it became apparent that European Investment Bank (EIB) support would be unlikely to continue in its then form. Charlotte Chase was responsible for the Forum's work on this subject, and it was great that Charlotte, now of Flint Global Consulting, could join the meeting to make some observations.

A UK Infrastructure Bank had been a long time in gestation. Three Chancellors had discussed and almost announced an UKIB, and there had been much thinking on the subject, not least within government, but also within a variety of other organisations. It was therefore very pleasing that there had been almost universal positivity around its creation.

Some people were concerned that the bank would crowd out private sector capital. However, its intention was very much to crowd in private capital, specifically around the themes of net zero and levelling up.

There was already a huge amount of interest and level of inquiry from the market around what the Bank would be doing. Government had begun identifying and targeting the projects and programmes where, due to technological challenges or revenue adoption risks, there was a real desire to have government providing supportive capital.



Treasury intended for the bank to be setup in interim form later in the Spring (2021) and would publish a more detailed framework, setting out governance arrangements and the Bank's relationship with Government, very shortly. Much focus was also being given to getting high caliber people into the team.

The Bank would be set up in statute, helping both in terms of its independence and it being an enduring and permanent part of the UK institutional landscape. It would be legislated for within the next year and would grow in a linear fashion up to the point that it reached full strength.

In terms of its core mission, the UKIB had two key objectives. One was to support regional and local growth, and the second was to tackle climate change.

The level of investment required to reach net zero was significant, with the Committee on Climate Change stating it would take an additional £50 billion investment every year across the economy, much of which would be in infrastructure sectors.

In transport and energy sectors in particular, there would be transformative technological change over the next 20 to 30 years. Government believed the UKIB would have a key role to play in helping to bring this forward in a way that was beneficial for the economy overall.

The Bank would have an initial £22 billion of financial capacity. £10 billion would be through guarantees and £12 billion through equity and debt capital. There would be a review point after three years to assess the progress the bank had made and ensure it had sufficient capital in place.

In terms of its principles, six would be set out behind the Bank.

One was sound banking. The bank would have a double bottom line, have policy objectives to meet, and have to make a sustainable financial return.

The second was partnerships. The UK infrastructure landscape was very complex and had multiple different actors across the private and public sectors.

Third was additionality, with a focus on adding value.

Fourth was operational independence. The bank would have a mandate set by the government, but would have a high degree of operational independence within that mandate. For instance, the bank would be able to make investment decisions without checking those with ministers.

Fifth and sixth were credibility and flexibility. The bank would have long term objectives, so would need to think in a long-term way. But, it was also important for this mandate to be flexible, so that it could react to changes in the market.

In terms of the products the Bank would have at its disposal, these would include straightforward senior debt type products, and similarly equity, with the ability to invest directly in companies, whether SPV's, operational entities, or indeed through funds, as had been done in the past through the digital infrastructure investment fund, and the electronic vehicle charging infrastructure fund.

There would also be hybrid products, including some mezzanine subordinated debt type products

and something similar to the EIB's project bond credit enhancement products, that could be really quite powerful in terms of herding in private sector capital.

Direct equity type investment was not something that had been available in the past and was an area that Government thought there would be a real multiplier effect in terms of bringing in private sector capital, especially for nascent technologies and industries.

It was fair to say that the EIB had never been that far up the UK political agenda. It was a relatively minor feature of Brexit negotiations, with the UK's sizable stake in the Bank relinquished with relatively little fanfare, despite it providing €7 billion per year at its peak.

The debate that followed focused largely on whether the UK needed a replacement to the EIB, and if it did, what that might look like. Treasury had certainly now settled that debate with the creation of the NIB.

In many ways, it was thought that the NIB could be the missing piece in government's toolkit. If public funds alone could have delivered on its agenda, the bank would have been surplus to requirements, but it was clear that it could not.

An upcoming TIF paper would consider a few key remaining questions regarding the designing of the bank, and the tensions that government would need to balance in order for the bank to act as the final puzzle piece.

Broadly, the paper would try to answer six key questions:

What scope should the Bank have?

How should it balance its commercial and policy priorities?

How could it use the tools at its disposal most effectively?

How it would decide in which projects to invest?

What role has it in developing infrastructure finance frameworks?

How the Bank's governance can set it up for success?

At first glance, the capitalization of the Bank looked a little underwhelming. Its growth would be incremental, with caps on the level of debt it could

raise to support its operations, as well as on the award of guarantees annually. But Treasury planned to revise the Bank's remit in 2024, which would be a critical milestone in cementing its future place in the market.

Also important was how the Bank balanced its commercial and policy priorities. If it got this right, not only would the bank have a real impact in unlocking investment in technology central to reaching zero, like CCUS, but it could also support its own growth by realising return on its investment.

Previous experience showed that a one size fits all approach to financing infrastructure rarely delivered best value for money, and the Bank would need to be flexible in how it provided support.

It was thought that the NIC could have a critical role to play in helping the bank identify potential areas for investment, giving it a new route to drive forward its recommendations.

To be successful, the Bank would have to assume a leadership role in developing financing models. Apart from a handful of exceptions like the CFD scheme, most sectors did not yet have a viable model.

COVID-19 had compounded this by upending demand based revenue streams in sectors such as rail. How the bank supported the development of financing models that offered sustainable revenue streams and managed risk exposure needed to be realised before the Bank and private capital could invest.

How the Bank was governed would influence both its focus and activity. A robust investment committee would be central to upholding confidence in the bank's investment decisions. The EIB was a well-regarded example here.

There seemed to be a triangulation of the NIC's long term view on UK infrastructure, the Bank's work to unlock investment and the IPAs guidance to ensure successful project delivery.

Previously, the EIB helped to unlock private capital for major utility projects like Thames Tideway. What relationship the Bank had with economic regulators would be crucial to its operation. For example, the Bank could take on some of the risk that might otherwise be passed to consumers to help accelerate investment in regulated infrastructure.

One of the key challenges was the implicit tension between political imperatives and prudent banking principles. There had been situations at the EIB where it had come under pressure to support projects that were a glint in the eye of a government minister, without necessarily being very robust from a commercial perspective.

This pinpointed a major issue which was very much still a work in progress. There was a very strong desire for the institution to be independent, albeit fully owned by HMT with strong oversight and interest in terms of making sure that the bank had a strong alignment of interests with policy objectives. The intention was inevitably to have a very strong Investment Committee making decisions and a very clear investment framework.

Learning from experience of the Green Investment Bank (GIB), it was thought that anchoring the UKIB in Treasury was absolutely the right thing to do. Treasury was on the side of sound money and the bank would need support from time to time.

If the UKIB was to deliver on its stated objectives, one of the key prerequisites would be successful crowding in of private capital. It was queried whether there was an intention to design sector specific revenue based commercial models to unlock private capital.

It was important to note that the Bank was not operating in isolation. It would be part of a much broader strategy, and one policy tool amongst many.

In terms of developing revenue models, it was expected that the Bank would work closely with government departments to ensure policy and regulation were aligned with what the bank was doing, and that those things were working in harmony to create investment opportunities.

It was interesting to see the presence of the Public Works Loan Board (PWLb) within the policy design document, and the interaction of PWLB concepts in providing the opportunity for local authorities to borrow over £5 million for projects. It was wondered how this would work from an application perspective.

The local authority lending function would be an important part of what the bank would do overall. HMT had trialed a local infrastructure rate a few years ago, and the concept behind the NIB was similar. It would complement the PWLB, so local authorities would still have access to this for their day to day borrowing needs. But, local authorities would now be able to access capital at lower

costs through the Bank for strategic infrastructure projects.

Importantly, the bank would offer advice and support to local authorities. There had been much concern about capacity at the local authority level, particularly when dealing with very complex infrastructure projects, and government thought the bank could have a productive working relationship with local authorities and Mayor's through this function.

It was wondered how the Bank's activities related to the Prudential borrowing regime for local authorities. The problem they had was that a lot of the projects they would like to undertake were not commercially viable.

However, the projects the Bank would lend against would not have to be revenue generating in itself, unlike on the private side, but the Bank would have to be confident that the local authority could pay the money back. If a local authority was hard up against super exponential borrowing, as many of them were, the bank would have to take that into account.

The NIB would be interested in all sorts of proposals that came forward at a local level. One thing that had been routinely asked was whether the Bank would in some way bring back PFI, to which the answer was no. But in general, government wanted local authorities and private players to bring different ideas to the bank that they thought would make good projects that could contribute towards its overarching objectives.

Market led proposals, which DfT was interested in – particularly for rail – was something slightly different. There was a lot of inventive work around availability type arrangements and structures, which frankly, from a balance sheet treatment and classification perspective, were PFI by another name.

From local authorities, there was a huge amount of interest and new projects being put forward, not only in the transportation area, but also in new energy sources and solutions. For example, local authorities were keen to put zero emissions buses in place, whether hydrogen or electric, and therefore work in partnership with private sector developers, both to supply the buses and also to supply the hydrogen.

The development of new technologies was an area where the Bank could really add some value, as an area where it was difficult for private capital to take a leap.

The EIB had offered Project Bond Credit Enhancement (PBCE), which saw it take a slice of the risk in projects that weren't investment grade to help them attract capital market investors. It was wondered whether the UKIB would be able to take first loss risk, that might mean the rest of the debt was investment grade.

It was thought that a credit enhancement tool, like PBCE, was very similar to a mezzanine, subordinated debt type instrument, which could fill in a slow increase in revenues as a product or project began to be adopted. Linking that with construction completion was a sub investment grade area where it was thought that mezzanine hybrid type products could bring value.

In terms of the state aid implications and how risk would be priced, this would be a real judgement area for the Bank. Clearly, if it only replicated what the market was doing then it would not be adding value. But, by just providing subsidies then it would not meet its objective of being profitable.

It was wondered whether the Bank would do more active picking of technology products, instead of leaving it to the market in the traditional fashion. Clearly there's was no desire to pick losers, but it was important to try and determine which technologies would be successful, and unfortunately some would not be the right technological solutions.

The Bank actively technology picking seemed very much to be the right position. There would be no silver bullet to the challenges it would face, and there would be value in having a range of options, and gleaning more about what technologies could provide the best solution to government's objectives.

Some people were disappointed by the relatively limited deployment of the UK Guarantees Scheme (UKGS), and it was thought there could be lessons to be learned here?

It had to be remembered that UKGS was set up following the global financial crisis and was designed to cover an environment where it was thought there would be a lack of capital available.

Even through COVID-19, the UK had extremely liquid markets, and the fact that UKGS was designed not to be front footed, but to be reactive, meant that the full £40 billion was not utilised, even though it did crowd in much capital at more attractive pricing. This was where the Bank was different, because the intention was for it to be far more front footed.

The UKIB policy document hinted at another attempt to get institutional and pension fund investment into the infrastructure space.

The UK had been very successful at getting private investment into its infrastructure, with one of the most heavily privatised infrastructure sectors in the world, and the Bank wanted to co-invest alongside a wide range of actors.

There had been a feeling for some time that there was scope to do more with pension funds and with institutional investors. One of the things that government would ask the Bank's leadership to look at when it was in place, was what were the right strategic approaches that would help it ally with pension funds to attract greater investment from those sources.

This conversation had been highly informative as expected, but it had also been enjoyable and hugely stimulating. People would go away as even greater enthusiasts for contributing to the design and speedy and successful working of this project, which had been long gestation, but had huge potential.