



HM TREASURY'S INFRASTRUCTURE FINANCE REVIEW

NEW MEASURES TO BOOST INVESTMENT

SUBMISSION FROM THE INFRASTRUCTURE FORUM

JUNE 2019

INTRODUCTION

1. The Infrastructure Forum's network brings together investors, operators, constructors and professional advisors involved in the development of Britain's critical national infrastructure.
2. Its roundtable discussions and Working Groups with leading experts in infrastructure companies, investors and advisors have over the past year highlighted serious concern for the environment for infrastructure investment in the UK. Some investors have told us that they are in "hold and retreat mode" and are considering turning to other markets and asset classes.
3. Investment from both the public and private sectors will be crucial to delivering the infrastructure required to meet the needs of present and future generations.
4. The UK led the European PPP market between 2014 and 2018 with projects worth €15.08bn reaching financial close during this period,¹ but today the UK's status as one of the top places to invest is under challenge and action must be taken to maintain the UK's attractiveness to investors.
5. Against this background, The Infrastructure Forum welcomes HM Treasury's review of Infrastructure Finance and urges that the consultation reach a decisive conclusion on the future framework for financing infrastructure.
6. The consultation document recognises that the UK has been a very competitive and attractive market in which to invest,² but it is vital for future economic growth and productivity that this remains the case. A more visible commitment from the Government to support and facilitate private finance is indicated for the successful future of UK infrastructure.
7. TIF set up a Working Group, chaired by Paul Smith and Jon Dames, Partners at CMS, to respond to this consultation, comprised of infrastructure finance experts from across the industry. The Working Group has considered the questions posed by the consultation and drawn on the significant body of work published by The Infrastructure Forum to date on this subject.
8. These included the discussion paper by Graham Mather, President and Charlotte Chase, Policy Director at The Infrastructure Forum – *Rebuilding Partnerships in Infrastructure Investment* – published following the announcement of the Infrastructure Finance Review at the Spring Statement 2019.³
9. This formal response to the consultation expands upon the ideas and framework presented in the discussion paper.

¹ European PPP Expertise Centre, [Market Update 2018](#), January 2019, Annex 2.

² HM Treasury, [Infrastructure Finance Review: consultation](#), March 2019, p.7.

³ G. Mather and C. Chase, [Rebuilding Partnerships in Infrastructure Investment](#), March 2019.

CURRENT CHALLENGES FACING UK INFRASTRUCTURE INVESTMENT

10. A number of factors lead to concern about the prospects for private infrastructure finance.
11. Political uncertainty in two dimensions is driving some investors to adopt a “hold and retreat” policy. The threat of nationalisation of water, rail and other businesses is a clear deterrent. Additionally, some investors are concerned about uncertainty surrounding Brexit.
12. At the same time the political consequences of the collapse of Carillion and the perceived toxicity of the Private Finance Initiative are playing a part. Investors are concerned that the discontinuation of the partnership model, including PF2, has not been accompanied by the announcement of any successor policy. This void is sending signals to international investors that, notwithstanding its protestations to the contrary, the Government sees little future role for private finance in infrastructure initiatives.
13. Investors tell us that frequent observations from Government circles and HM Treasury that it is almost invariably cheaper to pay for projects in the form of traditional public spending or borrowing, deters international investors from considering UK opportunities. Government is seen to be confusing cost of finance (where Government always will prove cheaper) with cost of construction and operation (where invariably they are not). The point that overall the private sector *delivers* more cheaply than the public sector, despite its higher cost of finance, is often forgotten.

ECONOMIC REGULATION

14. Investors have told us that they believe that, under political pressure, economic regulators are following approaches to their price regulation regimes which do not allow sufficient incentive for private investment. In doing so, regulators have altered the risk-reward balance.
15. The TIF discussion paper *Rebuilding Partnerships in Infrastructure Investment* notes there has been increasing political pressure on economic regulators to reduce investment returns.⁴ If the reduced returns envisaged by some regulators are taken into account alongside political risk, one investor told us “it becomes more straightforward and less risky simply to invest in corporate bonds”.
16. Moreover, TIF’s Working Group heard from some investors that this approach means that focus is now turning to Europe and beyond where the regulatory process is more transparent and returns are balanced more fairly with risk. To restore trust in the transparency and independence of the UK’s regulatory framework will take considerable time.
17. TIF has separately explored this apparent problem in the regulatory approach to investment as part of its submission to the National Infrastructure Commission’s Future of Regulation Study.⁵

⁴ G. Mather and C. Chase, [Rebuilding Partnerships in Infrastructure Investment](#), March 2019, p.3.

⁵ The Infrastructure Forum, [Response to the NIC’s Future of Regulation Study](#), June 2019.

18. Private investment in regulated markets and across infrastructure more widely is the key to unlocking innovation which will deliver efficiency gains and better outcomes for consumers.
19. Against this background, TIF believes that it would be wise to fix the strategic and policy priority questions by strengthening the role of the NIC's own long-term strategic priority setting work and its National Infrastructure Assessment and developing closer engagement between it and the economic regulators in the development of this work.⁶
20. The Principles of Economic Regulation suggest that statements of priorities should be made no more frequently than once a Parliament and should "provide context and guidance about priorities and desired outcomes".⁷
21. The Government should update statements of strategic priorities for sectors on a regular and predictable basis, after consulting regulators, stakeholders and the National Infrastructure Commission. The statements should be aligned with the National Infrastructure Strategy.
22. Although Ofgem, Ofwat and Ofcom are the focus of the NIC's study of the Future of Regulation, the approach recommended by TIF could equally be expanded to transport and digital infrastructure, whilst acknowledging the specific challenges of each sector.
23. Different sectors will naturally have different priorities suggesting the need for different and evolving boundaries between government and regulators.
24. Crucially, there needs to be a triangulated approach between the NIC, regulators and HM Treasury, and consensus on the way to increase private sector investment.

⁶ The Infrastructure Forum, [Response to the NIC's Future of Regulation Study](#), June 2019, p.7.

⁷ Department for Business, Innovation and Skill, [Principles for Economic Regulation](#), April 2011, p.8.

THE ROLE OF THE EIB IN THE UK

26. TIF's network support the European Investment Bank's role in the UK infrastructure market.
27. EIB lending to UK projects reached a peak of €8billion in 2015⁸ but has stalled since the UK voted to leave the EU in 2016.
28. TIF's report *The Future of the European Investment Bank in the UK* identifies that EIB loans provide a number of hard and soft benefits to projects, many of which are not provided by the capital markets.⁹ These include:
 - I. Long-term funding at a subsidised cost;
 - II. Acting as a **cornerstone investor** on higher risk projects, by offering up to 50% of the financing needed;¹⁰
 - III. Promotes **crowding in of new technologies**, by providing a reassuring presence to investors;
 - IV. During times of market contraction, the EIB continues to lend, **stabilising markets**;
 - V. **Offering reassurance to foreign investors** on default risk. This is especially true in large syndications, where its **experienced teams** can lead negotiations;
 - VI. Providing **loans with longer tenors** of periods from 36 months to 30 years, reducing refinancing risk;
 - VII. Significant flexibility on lending terms. Loans can be:
 - i. **Drawn down in tranches** over the period agreed, rather than companies having to take the loan as an upfront lumpsum, which can help treasury teams with balance sheet management
 - ii. Issued in **different currencies**
 - iii. Issued at either **fixed or variable interest rates** and rates on future tranches can be forward fixed
 - iv. Subject to interest rate changes during their life at predetermined dates or during predefined periods at the discretion of the EIB.

⁸ European Investment Bank, [Project Loans](#), 2019.

⁹ The Infrastructure Forum, [The Future of the European Investment Bank in the UK](#), January 2018.

¹⁰ European Investment Bank, [Project Loans](#), 2017.

- VIII. A **scale and reach** unmatched by any other lender. The **expertise** the EIB has gathered across nations and sectors can be used holistically to improve infrastructure finance on a multinational scale;
 - IX. **Offers are well tailored and appropriate for the associated risks**, as each project is subject to individual assessments, often more rigorous than those conducted by other lenders;
 - X. EIB has **strong technical due diligence** practices;
 - XI. The strict conditions attached to EIB lending ensure its finance supports projects of **social purpose** and upholds its **sustainability agenda**;
 - XII. The EIB is willing to look at **greenfield risk**, supporting new build and assisting business expansion across the Union and globally.
29. The TIF Working Group responsible for the EIB report consulted numerous users of EIB loans and senior infrastructure finance experts who thought that the loss of EIB lending would not be hugely detrimental and, in the majority of cases, liquidity gaps could be filled by the capital markets. This would, however, come at an increased cost of capital and potentially increase refinancing risk for projects.
30. Loss of access to EIB lending would be significantly problematic for smaller companies that do not have an agency credit rating or for those that need to finance innovative projects.¹¹
31. On this basis, the report concluded that the UK should pursue a Third Country Agreement with the EIB to secure access to EIB lending for those projects for which it is crucial. This facility would also become invaluable in the event of another economic crisis or market downturn.
32. *Rebuilding Partnerships in Infrastructure Investment* estimates that, although it would be unlikely that EIB lending would resume at the same level to the UK as when it was a member state, the UK could expect loans in the region of €2billion per annum to be made once a Third Country Agreement was well established.¹² This would be commensurate of the UK's strong links with the EIB and history as a significant recipient of EIB loans.
33. EIB funds should be used for projects that are subject to an element of market failure or are suffering from affordability issues to ensure that they do not displace private finance.
34. HM Treasury should pursue a Third Country Agreement with the EIB at the earliest possible opportunity to secure access to this source of lending.

¹¹ The Infrastructure Forum, [The Future of the European Investment Bank in the UK](#), January 2018, p.22.

¹² G. Mather and C. Chase, [Rebuilding Partnerships in Infrastructure Investment](#), March 2019, p.23.

A SUSTAINABLE PIPELINE

35. Another concern of the UK infrastructure industry is the lack of projects in the pipeline that investors and contractors know with reasonable certainty will be delivered.
36. TIF's Procurement Working Group published its report – *Sustainable Procurement: A vision for UK infrastructure* – in February 2019 examining the pipeline of projects in the UK.
37. The IPA's National Infrastructure and Construction Pipeline outlines investment of over £600bn during the course of the next 10 years of which more than half is expected to be provided by private investment. Whilst this constitutes a significant investment in UK infrastructure, TIF's Procurement Working Group note that 46% of the projects included in the Pipeline are already under construction.¹³
38. The report concluded that the lack of projects in the pipeline sufficiently certain for contractors to gear up to deliver was a significant contributor to unsustainable behaviours in the industry, including high risk transfer to the private sector, contracts awarded based on lowest cost and inadequate investment in skills.¹⁴
39. TIF recommends the introduction of a Pledged Project List to afford greater certainty for those investing and gearing up to deliver projects.¹⁵ Only those projects valued over £30million which are ready to be procured and have successful business cases should be included in this List.
40. Furthermore, the List should be user friendly and easy to extract information from, much like the pipeline published by Infrastructure Australia.¹⁶ Key to the success of the Infrastructure Australia pipeline is the distinction between 'initiatives' – potential infrastructure solutions which do not yet have a completed business case – and 'projects' – those which have a successful business case and have the go ahead from the Infrastructure Australia Board.¹⁷ The IPA should adopt a similar distinction when publishing a Pledged Project List.
41. The introduction of a Pledged Project List would enable contractors to invest to deliver projects more sustainably, reducing reliance on subcontractors and introducing innovative approaches; however, the List will not in itself change the way projects are procured in the UK.
42. A review of risk allocation in contracts and how contracting parties pass risks down the supply chain is also needed to foster a more sustainable approach to the financing and procurement of infrastructure in the UK. This point will be considered later by this submission.

¹³ TIF Procurement Working Group, [Sustainable Procurement: A Vision for UK Infrastructure](#), February 2019, p.7.

¹⁴ Ibid.

¹⁵ Ibid., p.2.

¹⁶ Ibid., pp.21-22.

¹⁷ Ibid., p.22.

43. Whilst a Pledged Project List would provide much needed certainty to those investing and delivering infrastructure projects in the UK, the number of projects which could actually be included in List as defined is relatively small.
44. The National Infrastructure Commission was given a fiscal limit of 1.2% of GDP for its National Infrastructure Assessment by HM Treasury; however, the amount of investment required in UK infrastructure will undoubtedly stretch beyond these plans on which the National Infrastructure Strategy will set out the Government’s policy in Autumn 2019.
45. Investors have told us that there is significant capital ready to invest in a larger pipeline of UK infrastructure projects, but this will require increased funding from government.
46. Participants in the Working Group told us that HM Treasury is often reluctant to fund new projects due to its overall objective to decrease the UK’s debt to GDP ratio and balance the budget.
47. Figure 1 from a Marsh and McLellan study shows that government’s ability to fund infrastructure is related to the general public’s preparedness to accept private investment, whether in whole or in part. It demonstrates that the current situation in the UK – limited public funds available for infrastructure investment and a high degree of public resistance to private investment – will eventually result in stagnation of the infrastructure pipeline.

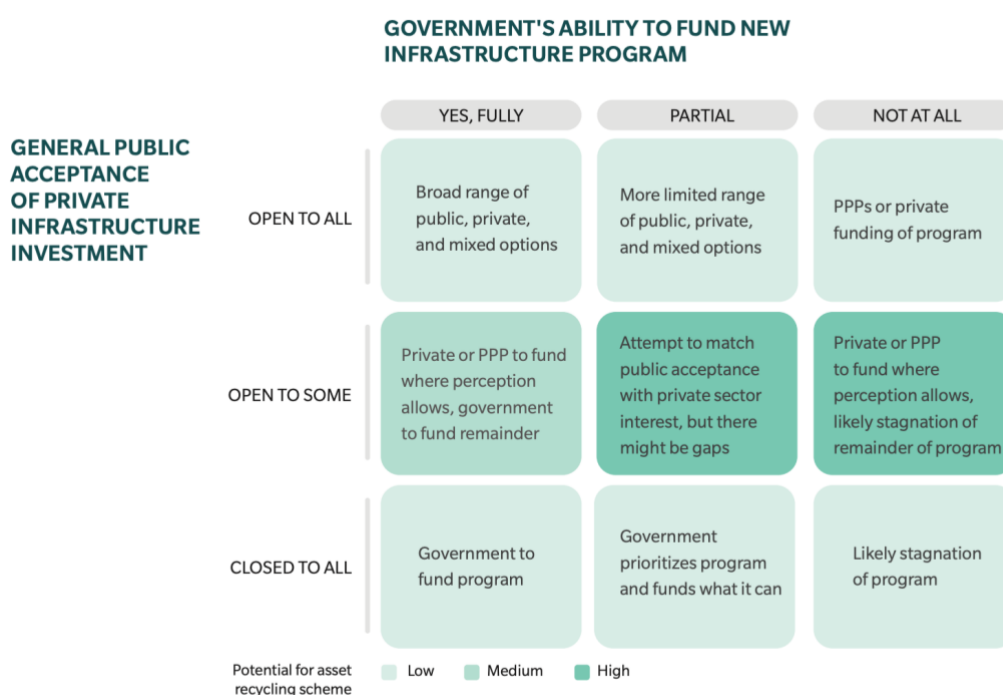


Figure 1¹⁸

¹⁸ Marsh & McLellan Companies, [Infrastructure Asset Recycling: Insights for Government and Investors](#), 2018, p.15.

48. Infrastructure projects inherently deliver increased productivity and economic growth. A better balance therefore needs to be found between funding the infrastructure necessary for the future of the UK whilst ensuring the UK's debt levels are sustainable, as well as rebuilding public trust in the private sector's role in infrastructure investment.
49. *Sustainable Procurement: A vision for UK infrastructure* notes that balance sheet treatment continues to be a major factor in determining the degree of risk transferred to the private sector when financing projects.¹⁹
50. In order to get projects off balance sheet, the majority of risk must not lie with the public sector. It is, however, often inappropriate and unsustainable to expect the private sector to carry such risk. When exceptional risks manifest, the scale of capital required, particularly on major projects, is such that the government must step in to provide the funds anyway to prevent the project from grinding to a halt.
51. The public purse is in effect paying twice in such circumstances – first to transfer the risk to the private sector and take the project off-balance sheet, second when the private sector cannot cover the cost of resolving the problem. This is plainly inefficient.
52. In order to reduce balance sheet treatment as the sole driving force of risk allocation, a more relaxed and pragmatic approach must be taken to the transfer of risk to ensure projects deliver the best value for money and promote a sustainable industry.
53. The Government should investigate the impact of undertaking more on-balance sheet public-private partnerships, as well as the application of statistical classification rules for national accounts in the UK which are determined by a number of international authorities including Eurostat and the IMF.

¹⁹ TIF Procurement Working Group, [Sustainable Procurement: A Vision for UK Infrastructure](#), February 2019, p.10.

HOW TO REBUILD TRUST IN PRIVATE FINANCE?

54. To address levels of public trust in the private financing of infrastructure, which have declined, requires a culture change.
55. This change in culture should have two aspects:

- a. **Explicit consideration of Social Value when evaluating a project**

Without a more holistic consideration of the benefits of infrastructure projects by both the public and private sector, infrastructure projects will continue to suffer from procurement on a lowest cost basis.

Participants in the Working Group suggest that the new Oxford-Cambridge Arc of Prosperity project provides a good example of consideration of the wider benefits of infrastructure early on in developing the project. The government and local partners have notably declared the area of 'significant economic potential' and Ministers in HM Treasury, the Department for Housing, Communities and Local Government, Department for Transport, and Department for the Environment, Food and Rural Affairs are all supporting efforts to unlock maximum value from the scheme.²⁰ This approach has helped to build institutional and public support for the project.

Social Value can also be realised in the delivery phase by considering the project holistically, rather than in a siloed fashion. Contractors and investors have told us that a sectoral approach to infrastructure delivery is inefficient and leaves project pipelines in flux, forcing investors and contractors to take on projects in other sectors which they may not be best suited to deliver.

The National Infrastructure Strategy will help to address this tendency and view infrastructure investment through a wider lens. There are considerable opportunities for efficiency gains and cost reductions if delivery is thought about holistically, for example when undertaking works on gas pipes new fibre cables could be laid simultaneously.

- b. **A sustainable approach to risk transfer**

Structuring project finance in a way designed to achieve off-balance sheet treatment has long been a driver of inappropriate risk transfer in the industry. This practice is leading to an industry which is unsustainable and will be unable to deliver future projects.

Careful consideration of which risks are appropriate for the private sector and public sector to hold respectively should be undertaken before a project is financed in order to achieve best value for money.

Different types of investors look for investments with different risk profiles, returns and investment horizons. Private investors have sophisticated models to

²⁰ Ministry of Housing, Communities and Local Government, [The Oxford-Cambridge Arc](#), March 2019.

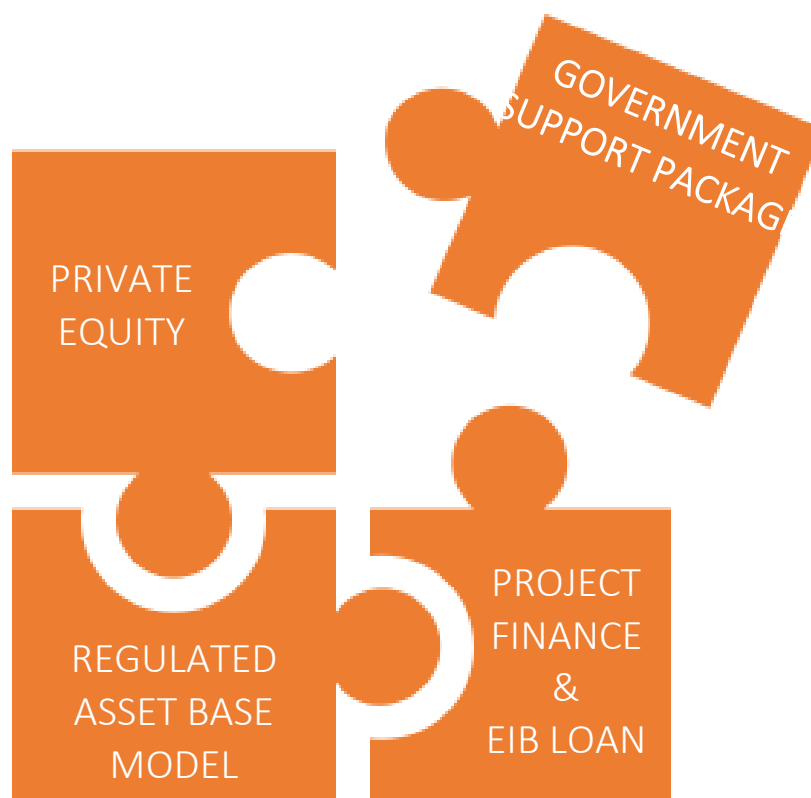
price investment opportunities. It is, therefore, possible to price debt taking on different elements of risk within a project separately.

Employing this more nuanced approach would encourage a more diverse set of investors into the market, increasing the capital available for infrastructure, whilst placing risk with those most capable of holding it.

56. Without these changes, it will be impossible to close the gap between public expectations of infrastructure and the reality of delivery which fosters distrust.
57. Capability within the Civil Service to consider risk and Social Value will need to be improved in order to realise such a change.
58. Business groups and representative bodies should place the demonstration of visible Social Value as a high priority in all projects.
59. In addition, the wider benefits of infrastructure must be considered and prioritised strategically and in the broadest context, before making the decision on whether and how to use the balance sheet. The delivery and impact of these additional benefits must be recorded to inform consideration of Social Value on future projects.
60. Only once there is a stronger commitment by Government to fund infrastructure projects, boosting the pipeline of projects, and steps have been taken to rebuild public trust in private finance will a new framework for financing projects prove successful. This Review of Infrastructure Finance must emphasise the cultural changes set out here as being of equal importance as the future financing framework.

A NEW FRAMEWORK FOR FINANCING UK INFRASTRUCTURE

61. It is evident that the UK needs a clearer and more visible framework against which infrastructure can be financed.
62. A new framework for financing infrastructure could strengthen investment in the industry and deliver the infrastructure of the future. TIF proposes a **Capital Partnerships Framework** which would offer a structured and transparent approach to financing infrastructure, as well as send a clear signal to domestic and international investors that the UK welcomes private investment.²¹
63. The Framework incorporates existing but underused HM Treasury schemes to support private finance, provide alternative models for financing infrastructure, diversify the sources of capital investing in projects, and boost the pipeline of projects.
64. The Framework would build upon the model used on the Thames Tideway Tunnel (TTT) project which has been heralded both domestically and internationally for delivering value for money for Thames Water customers whilst instilling the benefits of the diligence brought by private capital.
65. This balance was achieved by careful consideration of the risk transfer which led to the Government agreeing a support package to hold those risks deemed to be exceptional.



²¹ G. Mather and C. Chase, [Rebuilding Partnerships in Infrastructure Investment](#), March 2019, p.11.

The European Investment Bank also made a loan to the project of £700m which further reduced the cost of financing as the EIB lends at a below market rate.

66. All projects are different, but it is not necessary to take a blank sheet of paper to the financing structure of each infrastructure project. The components of the TTT approach – a government support package, equity and project finance, EIB loan, contractual alliances, the use of the NEC target cost contract and RAB structure with appropriate regulatory adaptations – could be employed on future projects where a user-pays model is applicable.
67. The elements of the Capital Partnerships Framework set out below provide components to structure financing for UK infrastructure projects to achieve similarly successful results as on the TTT. They should be accompanied by explicit consideration of Social Value and a sustainable approach to risk transfer. Indeed, the RAB based model with its inherent focus on long term investment may lend itself more readily to delivering sustainable Social Value.
68. The financing components used on TTT and those others outlined in *Rebuilding Partnerships in Infrastructure Investment* can be deployed to varying degrees to achieve similarly successful approaches as on Tideway.
69. It will be vital to ensure those responsible for structuring finance on infrastructure projects have the skills and expertise necessary to deploy the components of the TTT model in the way that best suits a particular project, in particular in assessing the risk profile.

CAPITAL PARTNERSHIPS FRAMEWORK

GOVERNMENT SUPPORT PACKAGE

70. The support package put together for the TTT provided government support for those exceptional risks posed by the project which the private sector should not be expected to take on. Without such a support package the cost of capital for the project could have been significantly increased. The support package also was a tangible reflection of the government's political support for the project.
71. Using a Government Support Package, particularly for major projects and new technologies, ensures that risk is allocated in the most appropriate and sustainable fashion to deliver best value for money.

UK GUARANTEES SCHEME

72. The Infrastructure and Projects Authority's UK Guarantees Scheme provides public guarantees to infrastructure projects of which the main benefit is the ability to use the government's credit rating to reduce the cost of capital. The guarantees also aim to reassure private investors and promote a crowding in effect; however, uptake of the scheme has not yet been widespread. The scheme has been allocated £40bn under the Infrastructure (Financial Assistance) Act 2012,²² yet only £1.8bn has been deployed to date.²³
73. The Working Group has suggested the scheme should be revised to make it more appealing to projects and investors, as in many cases it was cited as expensive to use and did not make a significant difference. Government should also look closely at the criteria a project must meet to apply for the UK Guarantees Scheme as we heard that in some cases these criteria can be too stringent.
74. Some participants in the Working Group proposed that the UK Guarantees Scheme could be expanded to provide demand guarantees for new technologies such as heat and electric vehicle charging infrastructure.

STATUTORY LOANS

75. HM Treasury has powers under the Infrastructure (Financial Assistance) Act 2012 to make loans to infrastructure projects up to a maximum of £50bn.²⁴ This facility has at present been allocated in full to the UK Guarantees Scheme and Housing Guarantees Scheme, but some £10bn of the facility from the UKGS could be reallocated to make loans to projects considering the underwhelming uptake of the scheme.²⁵

²² Infrastructure (Financial Assistance) Act, HL Bill 43, 55/2. 1.2.

²³ Infrastructure and Projects Authority and HM Treasury, [UK Guarantees Scheme](#), 24 August 2017.

²⁴ Infrastructure (Financial Assistance) Act, HL Bill 43, 55/2.

²⁵ G. Mather and C. Chase, [Rebuilding Partnerships in Infrastructure Investment](#), March 2019, p.8.

PENSION FUND INVESTMENT

76. Pension fund capital is widely heralded for having return horizons and expectations well aligned with those of infrastructure projects. In order to unlock capital from pension funds, debt must typically be lower risk which will be aided by use of a Government Support Package or UK Guarantee.
77. The Pensions Infrastructure Platform (PiP) had aimed to be a £20bn fund when it was launched to facilitate pensions investment in infrastructure; however, the fund currently has only £2bn of assets under management. HM Treasury recommitted to the £20bn target in 2018 and must now consider how the structure of project finance can attract pension funds.²⁶
78. Participants in the Working Group suggest that guidance to Local Authorities that supports the business case for local investment in regional projects (outside of pooling arrangements), as well as increased resource to support local direct investment would improve the investment environment in infrastructure for pension funds.

EUROPEAN INVESTMENT BANK LOAN

79. The European Investment Bank made loans to UK infrastructure projects at below-market rates. Loans to UK projects peaked at £8bn in 2015,²⁷ but have dried-up since the UK voted to leave the EU.
80. The UK should seek a Third Country Agreement with the EIB once the Withdrawal Agreement has been passed to secure access to EIB lending, especially for those projects for which EIB lending is crucial such as social housing, environmental and innovative projects.

GOVERNMENT INFRASTRUCTURE BONDS

81. Experts in global infrastructure finance have told us that the creation of a new UK infrastructure finance institution to replace EIB lending would be a very complex undertaking.
82. HM Treasury could instead issue corporate and retail infrastructure bonds to support projects, diversify the range of investors in infrastructure, and improve the general public's relationship with projects. Bonds could align investment horizons with projects and provide below market-rate lending with many of the same soft benefits of EIB loans, including acting as a cornerstone lender particularly on new technologies and providing countercyclical lending.
83. Similar bond issuances for infrastructure exist internationally such as US Municipal Bonds which have a lower yield than US gilts but on which income from the bond is tax-exempt. The market for Municipal Bonds is highly liquid.

²⁶ G. Mather and C. Chase, [Rebuilding Partnerships in Infrastructure Investment](#), March 2019, p.20.

²⁷ European Investment Bank, [Project Loans](#), 2019.

REGULATED ASSET BASE MODEL

84. The RAB model, as used on TTT and Heathrow Airport's Terminal 5, is an innovative financing structure in which the regulator sets the value of return on investment. This value is periodically increased over the course of a project's construction, providing a return to investors from the start of construction through a user-pays model, and thus reducing risk of repayment for investors.
85. The Department for Business, Energy and Industrial Strategy is due to make a decision in Summer 2019 as to how the RAB-model could be applied to new nuclear projects. The model could also be applied to other projects where there is a clear user base, for example Ofcom have suggested the RAB-model could be used to fund less competitive areas for full-fibre roll-out.²⁸

COMMUNITY CONTRACTS

86. Community Contracts offer a new model through which to finance infrastructure projects by enshrining consideration of Social Value in governance structures. Detail on how this would be achieved has been outlined in the paper on *Rebuilding Partnerships in Infrastructure Investment* and was based on work published by The Infrastructure Forum from Paul Davies.²⁹
87. Scotland's 'non-profit distribution' and Hub models have been noted to work well employing similar structures and are trusted by the public, though it should be noted that, since these models were first developed, both have been judged to be on-balance sheet by Eurostat.

CONTRACTS FOR DIFFERENCE MODEL

88. The Contracts for Difference model has been predominantly used to support low-carbon energy generation by setting a 'strike-price' for the energy produced from the project. This protects developers of projects from volatile wholesale energy markets and consumers when electricity prices are very high. Under this model, investors do not receive a return on their investment until completion of the project.
89. The Low Carbon Contracts Company currently awards CfDs through allocation rounds of which the next auction opened in May 2019.

MARKET-LED PROPOSALS

90. The Department for Transport published guidance on Market-Led Proposals for rail projects in March 2017 to encourage innovative ideas from the private sector on how to improve the UK's rail network.³⁰ TIF's Procurement Working Group undertook a detailed examination of this guidance and made a series of recommendations as to how it could be improved including clear reimbursement structures for the development of successful proposals and greater protection of intellectual property.³¹

²⁸ Ofcom, [Promoting competition and investment in fibre networks](#), 29 March 2019.

²⁹ G. Mather and C. Chase, [Rebuilding Partnerships in Infrastructure Investment](#), March 2019, pp.28-30.

³⁰ See: Department for Transport, [Rail market-led proposals – Guidance](#), March 2018.

³¹ TIF Procurement Working Group, [Sustainable Procurement: A Vision for UK Infrastructure](#), February 2019, pp.29-32.

91. The guidance and recommendations for its improvement should be adopted by all departments responsible for infrastructure to boost the pipeline of projects. Such an approach will require HM Treasury to carefully consider how it will fund successful schemes, but this should not curtail its adoption.

RETHINKING THE DELIVERY OF INFRASTRUCTURE FINANCE

92. A clear and cohesive framework for infrastructure finance must be accompanied by improved governance to provide clear lines of responsibility and accountability for the industry.
93. The Working Group sees two main options to strengthen the governance of infrastructure finance in the UK which would improve outcomes for projects and rebuild public trust:

a. Move the IPA wholly into the Cabinet Office

The Cabinet Office tends to have a more centralised view of government from a management perspective than HMT. Locating the IPA within the Cabinet Office would afford the organisation greater independence from HMT and the wider view could help move the culture away from financing projects at the lowest cost and towards greater consideration of Social Value.

b. Join the IPA and the NIC in a single body responsible for infrastructure strategy and finance

To achieve a more unified voice for infrastructure investment and delivery in the UK, the Government should consider merging the IPA and the NIC to strengthen both bodies and provide a medium- and long-term view for infrastructure investment.

A National Infrastructure Delivery Authority (NIDA) would combine the NIC's holistic overview of UK infrastructure with the IPA's project finance expertise. This would be a bold move, marking a huge shift in public and private spending into a new and specialist body, which should report to the Cabinet Office.

A designated infrastructure agency, can maintain regular dialogue with national and global investors to ensure an up to date understanding of investor preferences and expectations.³²

Similar examples of such bodies already exist internationally, including Infrastructure Australia and Infrastructure Canada, which have been very successful in developing a strong and certain pipeline of projects to crowd in private investment.

94. Moreover, as the discussion paper *Rebuilding Partnerships in Infrastructure Investment* outlines, many current schemes to support infrastructure finance have not been utilised to the fullest extent. The UK Guarantees Scheme, for example, has only issued £1.8bn in guarantees out of the allotted £40bn.³³

³² Marsh & McLellan Companies, [Infrastructure Asset Recycling: Insights for Government and Investors](#), 2018, p.16.

³³ Infrastructure and Projects Authority and HM Treasury, [UK Guarantees Scheme](#), 24 August 2017.

95. Combining all guarantee schemes and funds currently managed by the IPA into a single fund administered by a strengthened infrastructure finance body could address the fragmentation and underuse of current schemes.
96. The scale of a combined fund would offer greater flexibility in the application of funds, compared with the current siloed and rather rigid structures; thus, funds would unlikely go unused to the same degree as at present.
97. HM Treasury and the IPA operate two guarantee schemes and six individual funds to support investment in UK infrastructure and housing:

Table 1

	£m	Notes
Guarantee Schemes		
UK Guarantees Scheme	40000	
Affordable Homes Guarantee Scheme	10000	
TOTAL	50000	
Funds		
Charging Infrastructure Investment Fund	200	(£400m total with private sector investment)
National Productivity Investment Fund	37000	
Borderlands Growth Deal	260	
Digital Infrastructure Investment Fund	400	(£800m in total with 3 private investors)
Housing Infrastructure Fund	5500	
Clean Growth Fund	20	
TOTAL	43380	

98. A UK Infrastructure Fund should have four main instruments at its disposal:
 - a. Funding
 - b. Guarantees
 - c. Loans
 - d. Asset Recycling Scheme
99. The EIB's European Investment Fund (EIF) offers a model on which the UK Infrastructure Fund could be based.

FUNDING

100. HM Treasury currently operates 6 funds to support UK infrastructure (see Table 1) of which the total value is some £43.3bn.
101. Combined together and operated by the UK Infrastructure Fund, the fund could have a significant impact in crowding in private sector investment, supporting infrastructure projects and responding to changing market needs effectively and efficiently.
102. This would operate much in the same fashion as EIF.

GUARANTEES

103. The European Fund for Strategic Investment (EFSI) aims to provide €21bn in guarantees to mobilise private capital into long-term investments, in particular to SMEs.
104. The EIF is responsible for the operational implementation of the EFSI. The Fund is comprised of a €16bn guarantee from the European Union and a €5bn commitment from the EIB.
105. EFSI forms part of the Investment Plan for Europe (otherwise known as the 'Juncker Plan') announced by President of the European Commission, Jean-Claude Juncker, on 15 July 2014. The plan set out boost investment across the EU following the 2008 Financial Crisis by mobilising €315bn in three years, using targeted initiatives to ensure this investment reached the real economy.³⁴
106. European legislators since decided to extend the target for mobilising finance through EFSI to €500bn by 2020. To date EFSI has mobilised €375.5bn with a further €70.4bn of financing approved for dispersal.³⁵
107. The UK Infrastructure Fund should be similarly responsible for the administration of guarantees to infrastructure projects. This facility could amount to some £50bn if the UK Guarantees Scheme and Affordable Housing Guarantee Scheme were combined.

LOANS

108. HM Treasury could issue bonds (as explained as part of the Capital Partnerships Framework) to provide capital for the UK Infrastructure Fund to make loans to infrastructure projects.
109. This would negate the need for a separate National Investment Bank which would, as previously argued, be considerably more complex to setup and the benefits of which would not be seen for some time.
110. Infrastructure loans issued by the UK Infrastructure Fund should be targeted primarily at those projects to which EIB lending is considered influential, namely environmental, social and innovative projects.

³⁴ COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESTMENT BANK, [An Investment Plan for Europe](#), /* COM/2014/0903 final */

³⁵ European Investment Bank, [European Fund for Strategic Investments, EFSI works](#), 2019.

111. An enhanced and strengthened role for the Public Works Loan Board could, in the event that a third country agreement cannot be made with the EIB, fulfil a similar function in the UK market. It should be noted that this lending would be on-balance sheet.³⁶

INFRASTRUCTURE ASSET RECYCLING SCHEME

112. The Working Group highlighted that the infrastructure asset recycling used by Infrastructure Australia has been particularly successful: completed infrastructure assets are leased or sold to the private sector in order to free up public funds to invest in new projects without increasing public debt.
113. Assets are identified by the responsible body which are to be sold or leased to the private sector. Port Botany in New South Wales was the first asset to be leased for A\$2.2bn as part of the Restart NSW scheme.
114. At the same time, plans for intended new assets are set out and the proceeds from leasing or selling current assets are allocated accordingly.³⁷
115. Under the Australian model, the state responsible for the sale of the asset is given an additional 15% of the asset's sale or lease price by the federal government to supplement the fund dedicated to building new infrastructure.³⁸
116. The Restart NSW Fund is responsible for reinvesting the proceeds from the leasing of assets into new infrastructure. This serves to ringfence funds ensuring that they are committed to future infrastructure delivery. Since the inception of the fund in 2011, its inflows have totalled A\$32.9bn and subsequent investments A\$22.4bn.³⁹
117. Public sentiment towards leasing or selling assets to the private sector would have to be considered in developing a similar programme in the UK;⁴⁰ however, the reinvestment of proceeds from existing assets into new assets would generate demonstrable benefits of the private investment.
118. Starting an asset recycling scheme in the UK could begin to rebuild trust in private investment in infrastructure as well as unlock public funds to support future projects without increasing government debt.
119. The funds made available by such a scheme in the UK should be managed and reinvested by the UK Infrastructure Fund. Reinvestment of funds into new projects should be aligned with government policy and the long-term plan for infrastructure which is due to be determined by the forthcoming National Infrastructure Strategy.

³⁶ The Infrastructure Forum, [The Future of the European Investment Bank in the UK](#), January 2018.

³⁷ Marsh & McLellan Companies, [Infrastructure Asset Recycling: Insights for Government and Investors](#), 2018, p.7.

³⁸ Ibid.

³⁹ Infrastructure Statement 2018-19, [Restart NSW and Rebuilding NSW](#), p.1.

⁴⁰ Marsh & McLellan Companies, [Infrastructure Asset Recycling: Insights for Government and Investors](#), 2018, p.15.

GOVERNANCE

120. Consideration of the governance of such a fund will be crucial to the success of the UK Infrastructure Fund.
121. The EIF is part of the EIB Group. The Fund supports SMEs across Europe by designing, promoting and implementing equity and debt financial instruments which specifically target SMEs, supporting European policy objectives.⁴¹
122. A UK Infrastructure Fund should have a similar statutory duty to improve productivity and competitiveness, as well as aligning investments with Government policy.
123. EIF has a public-private partnership structure: its shareholders are the EIB, European Commission, and financial institutions from across the EU member states and Turkey.
124. Many of the existing funds operated by the IPA have a similar public-private structure, whereby public funds are used to crowd in investment from the private sector. For example, the Digital Infrastructure Investment Fund was seeded with £400m of public money on the basis of which three other private investors provided additional capital of £400m, bringing the total funds to £800m. These partnerships should be continued by a UK Infrastructure Fund.
125. A new UK Infrastructure Fund should be run by a strengthened infrastructure finance body, reporting to the Cabinet Office. Interaction with government departments should be the responsibility of the Cabinet Office.

⁴¹ [European Investment Fund](#), 2019.

SUMMARY OF RECOMMENDATIONS

126. A more visible commitment from the Government to support and facilitate private finance is indicated for the successful future of UK infrastructure.
127. The Government should update statements of strategic priorities for sectors on a regular and predictable basis, after consulting regulators, stakeholders and the National Infrastructure Commission. The statements should be aligned with the National Infrastructure Strategy.
128. HM Treasury should pursue a Third Country Agreement with the European Investment Bank at the earliest possible opportunity to secure access to this source of lending.
129. TIF recommends the introduction of a Pledged Project List to afford greater certainty for those investing and gearing up to deliver projects.⁴²
130. Infrastructure projects inherently deliver increased productivity and economic growth. A better balance therefore needs to be found between funding the infrastructure necessary for the future of the UK whilst ensuring the UK's debt levels are sustainable, as well as rebuilding public trust in the private sector's role in infrastructure investment.
131. In order to reduce balance sheet treatment as the sole driving force of risk allocation, a more relaxed and pragmatic approach must be taken to the transfer of risk to ensure projects deliver the best value for money and promote a sustainable industry.
132. The Government should investigate the impact of undertaking more on-balance sheet public-private partnerships, as well as the application of statistical classification rules for national accounts which are determined by a number of international authorities including Eurostat and the IMF.
133. To address the levels of public trust in private financing of infrastructure, which have declined, the UK must first undertake a change in the culture driving private investment before it can then implement a new framework for infrastructure finance. This change in the culture should be two-fold:
 - a. **Explicit consideration of Social Value when evaluating a project**
 - b. **A sustainable approach to risk transfer**
134. A new framework for financing infrastructure could revive investment in the industry and deliver the infrastructure of the future. TIF proposes a **Capital Partnerships Framework** which would offer a structured and transparent approach to financing infrastructure, as well as send a clear signal to domestic and international investors that the UK welcomes private investment.⁴³

⁴² TIF Procurement Working Group, [Sustainable Procurement: A Vision for UK Infrastructure](#), February 2019, p.2.

⁴³ G. Mather and C. Chase, [Rebuilding Partnerships in Infrastructure Investment](#), March 2019, p.11.

135. A clear and cohesive framework for infrastructure finance must be accompanied by improved governance to provide clear lines of responsibility and accountability for the industry.
136. The Working Group sees two main options to strengthen the governance of infrastructure finance in the UK which would improve outcomes for projects and rebuild public trust:
 - a. **Move the IPA wholly into the Cabinet Office**
 - b. **Join the IPA and the NIC in a single body responsible for infrastructure strategy and finance**
137. Combining all guarantee schemes and funds currently managed by the IPA into a single fund administered by a strengthened infrastructure finance body could address the fragmentation and underuse of current schemes.