UK Infrastructure Bank Bill: Impact Fact Sheet

Background

This fact sheet is intended to help parliamentarians understand the impacts of the UK Infrastructure Bank Bill ("the Bill"). It draws on analysis that was undertaken alongside set up of the UK Infrastructure Bank ("the Bank"), such as the Bank's Outline Business Case. As the Bill does not contain new regulatory measures, a full impact assessment for submission to the Regulatory Policy Committee was not required.

What is the UK Infrastructure Bank?

The Bank is a new, government-backed lending institution, which will invest in infrastructure across the UK. It will make investments in line with its objectives:

- To help tackle climate change, particularly in meeting the Government's statutory target to achieve net zero carbon emissions by 2050; and
- To support regional and local economic growth, through better connectedness, opportunities for new jobs and higher productivity.

The Bank has £22 billion of capital available to offer a range of financial tools, including debt, equity and guarantees, and has already undertaken several investments. Based on evidence from similar institutions both in the UK and internationally, the Bank will crowd-in £18 billion of private investment, meaning it is expected to help unlock a total of £40 billion of investment into infrastructure projects across the UK. The Bank has been set-up in phases, starting with its launch on 17 June 2021. The final phase of the Bank's establishment is putting it on a statutory footing, which will ensure that its long-term purpose and the necessary powers to deliver this are enshrined in legislation.

Why are we legislating?

The Government's vision for infrastructure was set out in the National Infrastructure Strategy, published alongside the Spending Review in 2020. This included a commitment to create a UK infrastructure bank and to legislate to establish it at the earliest opportunity. Broadly, the Bill will:

- Confirm and give statutory force to the Bank's objectives;
- Ensure the Bank is a long-lasting institution;
- Create statutory forms of transparency, accountability and governance for the Bank;
- Remove legal barriers to the Bank undertaking direct lending to local authorities ("LAs"); and
- Grant specific powers to the Treasury to provide financial assistance to the Bank.

Why is there a need for government intervention?

Infrastructure and Net Zero

Private investment has delivered major benefits for UK infrastructure and will be vital over the coming decades as the UK works towards achieving net zero by 2050. Investment needs to be scaled up and accelerated in markets where there are currently financing shortfalls, to help deliver technologies and projects that will tackle climate change.

Infrastructure investment is vulnerable to market failure, as it is often complex, large, novel, and long-term, with risks around construction, and technological or government policy changes. Without government action there is a risk this market failure will not be addressed and that the private sector lacks the confidence to invest at the speed and scale required.

Significant public and private investment will be needed to achieve the UK's infrastructure policy goals and low carbon investment will need to be significantly scaled up to deliver net zero. This is highlighted by the fact that the UK's core infrastructure – power, heat and transport networks – accounts for over two-thirds of UK emissions. The Bank will lend to LAs where 82% of UK emissions are within the scope of influence of LAs and many authorities have set ambitious net zero targets.

This is where the Bank will play a role, as part of the Government's broader infrastructure strategy. The Bank will complement the expertise of the Infrastructure and Projects Authority and the National Infrastructure Commission, by investing in infrastructure projects which will help meet the net zero target. For example, the Bank's first deal was a £107 million loan to support Tees Valley Combined Authority in the redevelopment of the South Bank Quay in the Teesworks freeport area. Once finished, this will host a site for the manufacturing of off-shore wind turbines and will create around 800 jobs.

Levelling Up Infrastructure

Disparity in infrastructure across the country has been identified as a key driver of economic inequalities. Central to the Government's ambitions is setting up new institutions which will deliver changes in line with the levelling up policy programme, in particular boosting productivity, pay, jobs and living standards by growing the private sector and supporting it to deliver opportunities in parts of the country where they are lacking. Without intervention, the private sector is likely to continue to target geographic areas which have historically received higher levels of private capital. The Bank aims to remedy geographic inequality and drive improvement in long-term productivity across the country by crowding in private capital to areas that have been left behind, strengthening regional and local economies.

Further, the Bank responds to the need identified in the Levelling Up White Paper to boost local decision making to allow communities to make improvements that are most needed. An additional source of government-backed finance for LAs will give local decision-makers increased power in deciding which investments in infrastructure will have the most impact on the local economy. As well as financial tools, the Bank will play a role in convening actors across the infrastructure market to collaborate on projects and in offering an advisory service to LAs to improve the expertise and quality of infrastructure projects they lead.

European Investment Bank Funding

The changing institutional environment has further created a need for greater government intervention within the infrastructure finance landscape: since the UK's departure from the EU, the European Investment Bank ("EIB") has no longer provided new financing to the UK. The EIB previously invested around €7 billion per year in the UK and played a pivotal role in helping some new green technologies, such as off-shore wind, develop a commercial market through its low-cost lending. However, an assessment from Vivid Economics for the National Infrastructure Commission showed that in some cases EIB activity crowded out private investment. Therefore, the Bank is designed to take on the role which EIB previously filled in investing in new green technologies and development, whilst ensuring that its finance is focusing on areas where there is a true need for government intervention.

What are the benefits?

Direct Benefits

Improving the quality of the UK's infrastructure is key to both driving economic growth across the country, and to supporting delivery of the statutory net zero target. The Bank will be a crucial part of the scaling up of investment to meet the UK's infrastructure needs, bringing £22 billion of finance to this space, as well as attracting increased private sector investment. Whilst the Bank is already operational and has undertaken several deals, one of the benefits of putting the Bank on a statutory footing is that it will provide as to the Bank's long-term role in the market, thereby helping it to garner confidence and attract increased private investment.

Further, the Bank does not currently have the ability to lend directly to LAs. The Bank can currently only lend to LAs through the Public Works Loan Board ("PWLB"). The Bill will change this, granting the Bank the legal capacity to make loans to LAs. The Bill will also enable the Bank to loan directly to LAs in Northern Ireland (currently done through a devolved equivalent of the PWLB), and place the Bank's power to make loans to the Northern Ireland Executive (which is the primary source of public sector infrastructure financing in Northern Ireland) on a statutory footing.

The Bill further sets out that one of the Bank's core functions will be to act as a centre of expertise and to provide advisory services. This will be particularly useful in sharing best practice from successful local authority infrastructure across the UK. The Bank is also able to offer greater flexibility in its finance offering compared to the PWLB; for example it was able to negotiate a 2-year repayment holiday for its first loan to Tees Valley Combined Authority last year.

Indirect Benefits

Due to high levels of risk and uncertainty in green infrastructure projects, there are significant barriers to private investment in these areas. One of the Bank's key aims is providing additionality to the market, prioritising investment where there is an under-supply of private sector finance. It is expected that alongside the Bank's £22 billion of financial capacity, the Bank will crowd-in an additional £18 billion of private investment. The wider effects seen here will be a vital element in achieving wider government levelling up priorities of boosting productivity, pay, jobs and living standards by growing the private sector, as well as in delivering the investment needed for meeting the net zero 2050 target.

The success of this mission to support private sector finance depends upon the Bank establishing itself as an institution with credibility and expertise in the market. To this end, the Bill builds upon the Bank's operational independence set out in its Framework Document, ensuring longevity by putting the Bank's objectives, functions and governance on a statutory footing.

How much will this cost?

Direct Costs

The Bank is working towards becoming a self-funding institution. In the immediate term, there are set-up costs involved in establishing the Bank, which can be divided into upfront capital costs and longer-term operational costs. The Bank will have a total of £22 billion of financial capacity, divided into different financial tools and products: it will have a £5 billion equity capital limit, while it will be able to borrow £7 billion (of which £4 billion will be allocated to local authority lending.) Furthermore, the Bank will be able to issue up to £10 billion of guarantees.

Indirect costs

LAs applying for finance through the Bank will be subject to an application process administered by the Bank which will therefore operate differently to the established process administered by the PWLB. This added scrutiny will enable LAs to borrow at a cheaper rate and has wider benefits of improving local government finance practices. Further, the Bank will work to support LAs through this process, including through its advisory services.

There is the potential risk that the Bank could crowd out private finance. Independent evaluations of the historic function of the EIB in lending within the UK identified the EIB as having been additional in some areas where the private sector is less likely to invest, however in many other areas it may have overreached and crowded out private finance. The Government has reflected on this and considers that this risk should be mitigated by the Bank's Investment Principles (published in June 2021). These principles include a requirement that private sector projects are expected to crowd in significant private capital over time. Treasury will issue the Bank with periodic strategic steers, the first of which – in March 2022 – set out the Government's expectation that the Bank will focus on maximising policy impact through its interventions, using public policy expertise and banking rigour to overcome barriers to finance in the market.

Are there other ways to achieve the policy aim?

The Government considered a number of interventions before launching the Bank, these included:

1. Privately run fund
   The Treasury would act as a cornerstone investor and select fund managers to administer on their behalf within the outlined policy remit. This would have had lower costs but involved wider crowding-out costs and would not have lent to LAs.
2. Publicly run fund
   The Treasury would set up a fund and manage it in-house, making a broad range of investments with a policy focus, though this would not have included lending to LAs.
3. Infrastructure bank
   Setting up an independent institution that is targeted at the problems identified that could invest in both the private sector and deliver local authority lending, offering a range of financial products.
4. Broader development bank
   Setting up a bank with a much broader remit, covering SME and start-up finance as well as infrastructure, comparable to Germany's KfW, their post-reunification development Bank. This could have been delivered through the pre-existing British Business Bank by adding to its functions.

Cost-benefit analysis of these options looked at how effectively they would have achieved policy objectives and addressed the market failure outline above, finding an independent infrastructure bank offered the means to be highly focussed on these objectives and therefore the best value for money.

Equalities Impact Assessment

The Bank is not expected to have an impact on equality and diversity, namely on race, religion or belief, disability, sex, age, gender reassignment, pregnancy and maternity, or sexual orientation.

Measuring Impact

Looking forward, the Bank will develop key performance indicators to measure its performance as part of its strategic plan which will be published in June 2022. It will also conduct evaluations to capture the benefits of its investments. The Bank's annual accounts and reports will be laid before Parliament and a statutory review will be undertaken every seven years.