NEW BUILDER

The UK Infrastructure Bank has been given a £12bn war chest. But will it be enough, and where will the new institution fit into the country's wider investment landscape? Nicholas Neveling reports

Chancellor of the Exchequer Rishi Sunak announced in the spring Budget that the new UK Infrastructure Bank (UKIB) would be set up in Leeds. He also provided information about its funding arrangements and commercial model. However, there are still unanswered questions about its exact long-term remit and whether it will have sufficient firepower to address the country's ever-growing infrastructure requirements.

The chancellor confirmed that UKIB would have £12bn at its disposal to accelerate investment in infrastructure. This initial tranche of funding – comprising £5bn of equity and £7bn of debt – will be invested in equity, mezzanine and senior loan instruments. In addition, UKIB will be able to provide a further £10bn of loan guarantees.

The Budget announcement also revealed the bank will operate as a profitable, independent entity that will "grow through recycling and retention of return on investments". UKIB's strategy will be to leverage government investment through cornerstone projects and "crowding-in private capital".

The objective is for UKIB to unlock up to £40bn of investment by injecting finance into projects that otherwise would not have progressed because of their perceived risk, as well as because of their large upfront capital expenditure demands.

Explaining where the funding will be deployed, the Treasury said UKIB has been given "a broad

mandate to offer support across different sectors" and to make case-by-case assessments for investments in clean energy, transport, digital, water and waste, in line with the UK's *National Infrastructure Strategy*, which was published in November 2020.

Can I have some more?
Does UKIB have ample funding to fulfil its mandate? Before the Budget announcement, John Armitt, chair of independent government advisory agency the National Infrastructure Commission, estimated that £20bn of investment over five years would be needed to make an impact and ignite new projects that the market wouldn't support.

Meanwhile, PwC has forecasted that the UK would need to invest a minimum of £40bn a year for the next 10 years if it was to deliver net-zero carbon emissions by 2050.

Richard Abadie, head of infrastructure at PwC, comments: "The chancellor said that the £12bn of funding and £10bn of loan guarantees will get £40bn of projects done, but that's the equivalent of one year's need. The funding from UKIB is to be welcomed and will be useful, but it won't be enough in isolation."

The fact that UKIB will have to operate on a commercial footing also raises questions about how much room it will have to deploy capital into green infrastructure and technology. Investment in these areas will be essential for

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LESSONS FROM THE GREEN INVESTMENT BANK

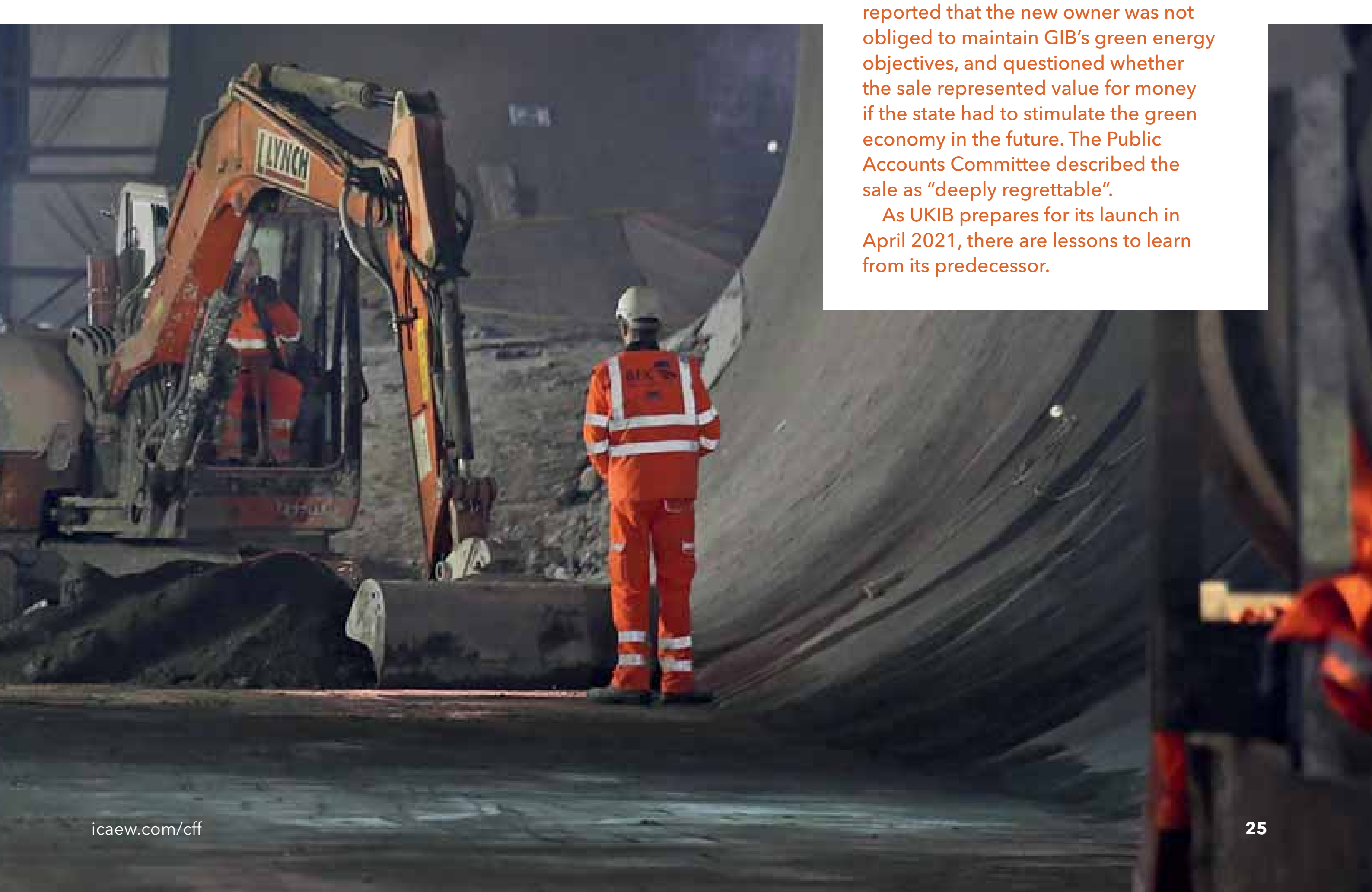
The UK Green Investment Bank (GIB; now the Green Investment Group), a brainchild of the former Labour government, was launched by the Conservative/Liberal Democrat coalition government in 2012 to invest in renewable energy. Sold to Australia's Macquarie in 2017 for £2.3bn, it was a key factor in the growth of the UK's offshore wind industry.

Renewables now serve close to a third of the UK's power needs, with half of this coming from wind power, according to trade association Renewable UK. The cost of wind power is also now competitively priced when compared with carbon-powered energy (see the cover story, 'Rise of the renewables', *Corporate Financier*, March 2021)

GIB was breaking even within two years of launch, and in the 2014/15 financial year it had invested £723m in 22 projects, valued at £2.5bn. It partnered with selected managers to finance smaller projects and provided matched lending to larger initiatives.

After the sale of GIB to Macquarie, however, the National Audit Office reported that the new owner was not obliged to maintain GIB's green energy objectives, and questioned whether the sale represented value for money if the state had to stimulate the green economy in the future. The Public Accounts Committee described the sale as "deeply regrettable".

As UKIB prepares for its launch in April 2021, there are lessons to learn from its predecessor.



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achieving net-zero targets, but these assets are still nascent and untested commercially.

Says Abadie: "It will be interesting to see to what extent the bank will have the scope to back infrastructure that has potential but is still unproven, given that UKIB will have to be profitable.

"By contrast, if you look at the way Canada's infrastructure bank has been structured, it has been capitalised with C$35bn [£20.1bn] and has room to lose up to C$15bn [£8.6bn] of that. UKIB is effectively operating with a double bottom line, and is therefore able to move further up the risk curve to catalyse investment in green infrastructure."

Broad strokes

UKIB's cost of capital will steer where it is likely to deploy its funds. To start, the bank's investment remit has been broadly defined. The Budget and policy document indicated that helping to achieve net-zero carbon emissions by 2050 will be one of its core aims. Another is support for regional and local economic growth, in line with the government's manifesto pledge for a 'levelling-up' agenda.

These objectives suggest that the bank will have scope to invest across the infrastructure spectrum. Projects may range from established verticals, such as transport, water and power, to newer assets, including carbon capture and electric vehicle charging points.

Designing UKIB in this way will, to an extent, position it as a replacement for the financing that came from the European Investment Bank (EIB) before Brexit.

Another proposition

This approach will also differentiate UKIB from the EIB, which provided attractively priced financing to infrastructure projects that often would have been able to tap global capital markets anyway. Abadie sees limited value in UKIB going down a similar route when there is already ample private sector appetite to address investment demand.

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"UKIB financing should not be concessional in any shape or form," says Abadie. "If anything, it should be more expensive, given the risk profile it will be taking. Rather than crowding out private sector investors in proven infrastructure categories, UKIB should look to areas where there are credible solutions in place, but a commercial model is still unclear."

He cites early stage net-zero technologies that support the decarbonisation of power, transport, buildings and industry, such as carbon capture, electric vehicles and hydrogen fuel, as likely areas for UKIB support.

A brave future

It is hoped that by going down this route, UKIB can play a role in de-risking greenfield infrastructure projects that will help to deliver net zero, and draw in private sector investors who would otherwise be too nervous to commit to financing large, upfront construction costs for projects yet to deliver income streams.

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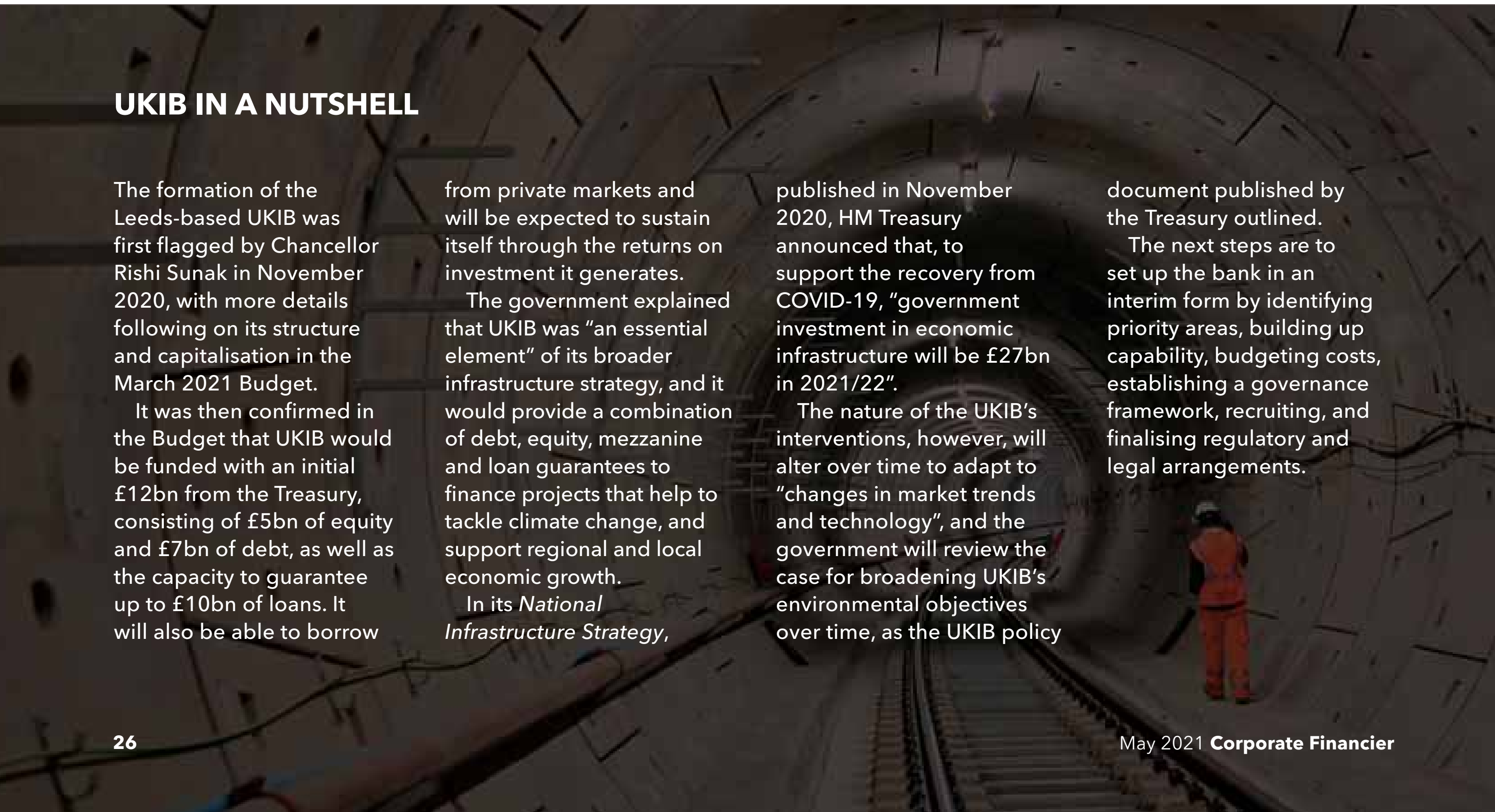

UKIB IN A NUTSHELL

The formation of the Leeds-based UKIB was first flagged by Chancellor Rishi Sunak in November 2020, with more details following on its structure and capitalisation in the March 2021 Budget.

It was then confirmed in the Budget that UKIB would be funded with an initial £12bn from the Treasury, consisting of £5bn of equity and £7bn of debt, as well as the capacity to guarantee up to £10bn of loans. It will also be able to borrow from private markets and will be expected to sustain itself through the returns on investment it generates.

The government explained that UKIB was "an essential element" of its broader infrastructure strategy, and it would provide a combination of debt, equity, mezzanine and loan guarantees to finance projects that help to tackle climate change, and support regional and local economic growth.

In its *National Infrastructure Strategy*, published in November 2020, HM Treasury announced that, to support the recovery from COVID-19, "government investment in economic infrastructure will be £27bn in 2021/22".

The nature of the UKIB's interventions, however, will alter over time to adapt to "changes in market trends and technology", and the government will review the case for broadening UKIB's environmental objectives over time, as the UKIB policy document published by the Treasury outlined.

The next steps are to set up the bank in an interim form by identifying priority areas, building up capability, budgeting costs, establishing a governance framework, recruiting, and finalising regulatory and legal arrangements.