

# ICE response to HM Treasury and the Infrastructure and Projects Authority consultation: Infrastructure Finance Review

## Executive summary

The UK faces demanding circumstances both in the immediate future and in the medium to long-term. Leaving the European Union will result in long-term regulatory, political and financial change which, if handled poorly, could impact heavily on the nation's prosperity and undermine the many advantages our nation benefits from, not least of which is a premier financial location.

It is important to safeguard this position and ensure stability to deliver the ambitious body of work set out in the National Infrastructure and Construction Pipeline and meet the demographic challenges of the future. By 2050 the UK population will be 75 million<sup>1</sup> and 75% of Adults believe that more money should be spent on improving the UK's core infrastructure networks.<sup>2</sup>

ICE has placed a focus on infrastructure investment over the last 12 months in our policy work. In October we released *State of the Nation 2018: Infrastructure Investment*,<sup>3</sup> which has informed our response to this consultation. We drew evidence from over 150 organisations and professionals as part of our evidence gathering for that report with a focus on how we meet the twin challenges of future need and interventions for the Government.

Amongst our recommendations was a call for the examination of the feasibility of establishing a UK financial institution as a contingency against a loss of access to low-cost anchor finance from the European Investment Bank (EIB) and to maintain domestic expertise in infrastructure investment.

Our response to this consultation focuses on the areas within our competence and as such we have only answered specific questions where we believe we can add value. Our recommendations include:

- That the Government explore a pay as you go model to replace fuel duty and vehicle excise duty in light of technological changes in the automotive and transport sectors.
- The Government should explore the development and refinement of financing and revenue models including asset recycling, land value capture, crowdfunding and market-led proposals in rail.
- Additional support for energy storage, through contracts for difference or a similar scheme, to enhance the deployment and resilience of renewable energy generation.
- That the National Infrastructure Commission should be placed on a statutory footing in the long-term.
- That, in the event of a loss of access to the European Investment Bank, the UK should establish a UK financial institution to match the capabilities and function the bank provides at present.

---

<sup>1</sup> ICE (2016) [National Needs Assessment](#)

<sup>2</sup> ICE (2018) State of the Nation 2018: [Infrastructure Investment Report](#)

<sup>3</sup> Ibid

## 1. Do you agree with strengths identified of the UK infrastructure finance market?

- 1.1. The strengths of the UK infrastructure finance market identified in the consultation document are broadly accurate. The UK is a premier location for both domestic and inward investment and boasts well developed, and internationally renowned, regulatory, legal and advisory sectors, as well as a strong financial centre in the city of London.
- 1.2. Government support mechanisms are also well developed, although could be strengthened. The Infrastructure and Projects Authority's National Infrastructure and Construction Pipeline (NICP) is a useful tool to provide the built environment sector and financiers with a forward view of activity. This allows for forward planning, gives businesses some surety of future work and allows time for private investors to marshal funds to support long-term projects.
- 1.3. ICE recommended in *State of the Nation 2018: Infrastructure Investment*<sup>4</sup> report that the NICP should further support investors by providing increased detail. Whilst investors can and do perform their own due diligence, a longer horizon for committed spending for projects, information about the variability of returns, more detail on known risks and an estimate of the expected scale of different projects, and how this might change, would aid initial interest and scoping. Visibility is key in an investment market which is global and providing support through an effective prospectus early helps to set positive expectations.
- 1.4. A healthy mix of public and private investment continues to manifestly be in the public interest. Over 45% of the NICP to 2020/21 is financed through the private sector; this is mostly concentrated in the regulated energy and water sectors and digital infrastructure. The remainder is sourced from national (45%) and local (5%) public spending, with approximately 5% funded through vehicles which combine public and private money.<sup>5</sup>
- 1.5. Mixed sources of finance for projects provides additional stability and redundancy. Capacity to finance projects is enhanced, it enables sharing of best practice and expertise between public and private sectors, encourages an attitude of cost controls and allows for competition between diversified financing streams to meet individual project needs. It also encourages a flow of private finance towards delivery of infrastructure which is socially or regionally important but could otherwise be unattractive to the private sector in isolation. This is due to low margins or a concern about revenue streams.
- 1.6. Existing mechanisms, such as the role of regulators in the Regulated Asset Base model or the 'anchor' role the EIB provides serve to incentivise private capital toward untested technologies or projects. The Regulated Asset Base model balances private and public interests, ensuring increased public acceptance and investment directed toward social value whilst remaining an investment attractive enough for private interest, without impacting on public finances. Over the past three decades water companies have invested more than £140 billion<sup>6</sup> in response to environmental standards set at the EU level and at the direction of the regulator. Public confidence remains high because of this investment, with nine in ten British adults saying they trust their water company to provide a reliable service.<sup>7</sup>

---

<sup>4</sup> ICE (2018) State of the Nation 2018: [Infrastructure Investment Report](#)

<sup>5</sup> IPA (2017) Analysis of the National Infrastructure and Construction Pipeline

<sup>6</sup> National Infrastructure Commission (2018) [Preparing for a drier future](#) Ofwat analysis, in their response to the NIC's Congestion, Capacity, Carbon consultation

<sup>7</sup> Water UK (2019) [New survey reveals a big fall in support for water nationalisation and shows high levels of trust in water companies](#)

## 2. What are the weaknesses in the infrastructure finance market?

- 2.1. Whilst the infrastructure finance market is broadly strong, there are areas where it might not be the best vehicle to deliver infrastructure projects. Some types of investors are unwilling, unable or lack the experience and skills to invest in certain types of projects or various stages of completion which could lead to gaps in provision.
- 2.2. Private finance favours stable and attractive returns and low risk. This might be particularly true for institutional investors and pension funds which tend toward prioritising long-term returns over short-term profit.
- 2.3. Lower risk projects tend to be concentrated in large population centres, that can provide a guaranteed revenue stream, and which have a strong economy. In the UK context this would tend to be London and the South East. Projects elsewhere may not have the footfall, or demand, to remain sustainable and lower population density would make delivery and maintenance of that infrastructure more expensive.
- 2.4. That is not to say that private finance would not support higher risk projects, just that, with a return focused mindset and absent other imperatives, they would be less likely to do so. Even where the will is present, the increased interest requirements from projects with a higher risk profile might render them prohibitive.
- 2.5. A similar concern exists for new or untested technologies, where private appetite is limited. The role of the EIB and the Green investment Bank, as was, in supporting private finance to deliver offshore wind is a prime example of this.<sup>8</sup> Intervention, incentive, inducement or risk reduction efforts are, therefore, necessary to ensure private finance is directed toward such projects.

## 3. What is your assessment of the European Investment Bank's role in addressing market failure? Where has the EIB provided additionality?

- 3.1. The EIB is one of the few large-scale organisations which prioritises investment for social and regional infrastructure. This is a result of how it is constituted and its purpose, being a vehicle for the European Union (EU), with EU member states as its shareholders furthering the objectives of the Union and directed by treaty.<sup>9</sup>
- 3.2. It's overriding purpose is to "overcome the large investment gap by relieving investors of some of the risk inherent in projects" and is specifically mandated to develop economically weaker regions, modernise, convert or develop activities which cannot be completely financed by individual member states or are of common interest to several member states.<sup>10</sup> Investments concentrate on innovation and skills, access to finance for smaller businesses, climate and environment and strategic infrastructure.<sup>11</sup>
- 3.3. The EIB also provides direction, both in terms of the due diligence underpinning its decision-making which commands market respect, but also through acting as an anchor lender and a first mover. The bank's role in supporting offshore wind, alongside the Green Investment Bank, acted to encourage other financiers to enter that market and drive innovation. With EU member states being shareholders, the EIB can also, in extremis, act as a lender of last resort and act as an insurance contingency, providing some policy stability during economic downturns. In the year following the credit crunch EIB "loan signatures and disbursements increased sharply in 2009 with the Bank supporting over 500 new large-scale projects and 50,000 small and medium sized enterprises"<sup>12</sup>
- 3.4. The EIB provides significantly lower cost finance than the market average because of its credit rating backed by multiple governments, lack of commercial profit motive and wide portfolio which serves to reduce risk. This both

<sup>8</sup> Green Investment Group (2017) [Shaun Kingsbury on offshore wind: The coming of age of a new asset class](#)

<sup>9</sup> The European Parliament (2019) [The European Investment Bank, Fact Sheets on the European Union](#)

<sup>10</sup> Ibid

<sup>11</sup> Ibid

<sup>12</sup> European Investment Bank (2009) [Activity and Corporate Responsibility Report](#)

enables it to take more risks with innovative projects, which might otherwise struggle to raise finance, and support new and untested technologies and concepts which would not be able to access commercial markets, supporting innovation.

- 3.5. Moreover, the bank's focus on support for regional development and supporting small and medium enterprises helps to address regional inequality and support businesses and projects which might otherwise fail to access affordable finance. Meanwhile its role in de-risking projects improves the viability of projects seeking finance and encourages additional liquidity in the market.

## 4. To what extent can the private sector fill any gap in infrastructure finance left when the UK leaves the EIB?

- 4.1. The UK has benefited greatly from inward investment from EIB which has invested some €31.3bn in the economy between 2012 and 2016, of which €14.8bn was invested in 2015-16.<sup>13</sup> This represents around one tenth of the financing for the current National Infrastructure Delivery Plan running to 2021.<sup>14</sup> However, finance from the EIB has declined greatly since the UK's vote to leave the EU, with just €2.8bn invested in 2017-2018 – a 80% decrease.<sup>15</sup>
- 4.2. Whilst this is not an insignificant amount, roughly half of the current pipeline of works is financed through the private sector<sup>16</sup>, or around £30bn per annum over the next ten years. In terms of raw capacity, therefore, the private sector is able to outpace any lending the EIB might be able to provide.
- 4.3. The private sector, however, cannot match the role the EIB plays as an anchor investor and, given the EIB's ability to lend on inexpensive terms, would not likely be able to match the significantly cheaper capital it can provide.

## 5. What new types of assets or technologies do you see coming to market in the next few years and what kind of financing issues might they raise?

- 5.1. An obvious technological challenge for infrastructure finance is the network and tax regime which will be required to develop an electric vehicle fleet by 2040. Government policy is for the sale of all new cars and vans to be effectively zero emission by 2040.<sup>17</sup> This will require a charging infrastructure network, which will encourage consumer demand to increase as concerns around availability of electricity and range anxiety reduce. The NIC's conclusion is this needs to be in place by 2030 and we recognise the Government's commitments, through the Charging Infrastructure Investment Fund<sup>18</sup> to support this.
- 5.2. A vehicle fleet which is zero emission, however, will lead to a carbon fuel crunch. Fuel duty will raise some £28.2bn in 2018-19, equivalent to £1,000 per household.<sup>19</sup> Yet, in the medium to long-term, if the Government is to make progress toward eliminating internal combustion engine vehicles, fuel duty will likely raise significantly

<sup>13</sup> EIB (2017) [The EIB in the United Kingdom](#)

<sup>14</sup> This figure is based on EIB lending to the UK between 2012 and 2016, converted to Sterling and adjusted for inflation from a baseline of 2012 set against the NICP pipeline to 2021 estimated at £297.3bn

<sup>15</sup> EIB (2019) [The EIB in the United Kingdom](#)

<sup>16</sup> Infrastructure and Projects Authority (2018) [Analysis of the National Infrastructure and Construction Pipeline](#)

<sup>17</sup> Department for Transport (2018) [The Road to Zero](#)

<sup>18</sup> HM Treasury (2018) [Charging Infrastructure Investment Fund](#)

<sup>19</sup> OBR (2018) [Fuel duties](#)

less than it does at present by the end of the next decade, accelerating a trend which has seen the value of fuel duty fall from 2.2% of GDP in 1999-00 to 1.4% of GDP in 2017-18.<sup>20</sup>

- 5.3. This carbon fuel crunch might be further compounded by the current Vehicle Excise Duty (VED) regime and the advent of Connected and Autonomous Vehicles (CAV). Exemptions and discounts currently exist for electric and lower emission vehicles. Indeed, recent figures suggest a trend toward cleaner fuels e.g. 33% fewer diesel cars were registered between 2017 and 2018, whilst ultra-low emission vehicle registrations increased by 11%.<sup>21</sup>
- 5.4. Whilst petrol registrations increased slightly by 3.3%, the DfT attributes this shift to changes to VED charges and the announcement to end the sale of all new conventional petrol and diesel cars and vans by 2040.<sup>22</sup> As ultra-low and electric vehicles attract reduced duties, this implies a long-term future trend of decreased VED revenues, in the absence of government intervention, and is especially important considering that VED will be directly hypothecated to fund Highways England's second Road Investment Strategy.
- 5.5. ICE advocates a sustainable pay as you go model to replace fuel duty and VED for the busiest roads in England.<sup>23</sup> Polling conducted for our *State of the Nation 2018: Infrastructure Investment* report by YouGov found that 47% of GB adults would support the introduction of pay as you go if it replaced both Vehicle Excise Duty (VED) and fuel duty. Only 23% would oppose with 30% reporting they would neither support nor oppose or don't know.<sup>24</sup>
- 5.6. A pay as you go model also has the potential to provide a revenue stream for private investment. Such a model is used successfully in France, on a concession basis with close regulation, for their autoroutes system.<sup>25</sup> Enabling private investment through this, or a similar, model could allow for efficiencies to be introduced in the transport sector more widely, which is heavily dominated by public finance and could free up public spending for other areas of investment.
- 5.7. There is a need more generally to find innovative new methods of creating revenue streams, which provide sustainable funding, if the UK is to make greater use of private finance. At present transport and flood defences in particular lack significant scope for private investment.

## 6. Does the market have capacity on a long-term basis to finance very large projects?

- 6.1. ICE would disagree with the assumption made in the consultation that 'large projects can struggle to raise finance because the market does not have the capacity to process them.' Other factors should be considered, including the risk profile of major projects which often acts as a deterrent or the need to marshal multiple financiers in a relatively short space of time. Improving the NICP so that it provides more detail, especially on risk profiles and has greater exposure might help to alleviate these issues.
- 6.2. As major projects increase in size and scope this does limit major project financing to very large institutional investors and coalitions of financiers, however, the level of risk involved in such projects is enormous. Tideway is an example of a successful delivery vehicle which managed to combine government support, with a diversified range of financiers to overcome extraordinarily complex, and risky impediments and provide clear funding streams, including during the build phase of the project.

---

<sup>20</sup> Ibid

<sup>21</sup> Department for Transport (2018) [Vehicle Licensing Statistics](#)

<sup>22</sup> Ibid

<sup>23</sup> ICE (2019) [Pay As You Go – Achieving Sustainable Roads Funding in England](#)

<sup>24</sup> ICE (2018) *State of the Nation 2018: Infrastructure Investment Report*

<sup>25</sup> ICE (2019) [Pay As You Go – Achieving Sustainable Roads Funding in England](#)

## 8. In the long-term, what lessons or models from established tools could be applied to different contexts?

- 8.1. The UK Guarantees Scheme (UKGS) is heavily underutilised. We set out in question 16 that it could be used to support a new UK financial institution, through a contingent liability model, to raise private capital for a replacement, if needed, to the EIB. As identified in the consultation, only £1.8bn of guarantees have been granted to date, with a capacity at any one time of £40bn.
- 8.2. There are a number of reasons why this could be the case. The UKGS was set up in part as a reaction to the lack of lending which characterised the credit crunch, however, by the time it was operational this crisis was largely passed, and market conditions had improved.
- 8.3. The scheme might also be comparatively unattractive to alternatives such as the EIB, which was already well established and performs a similar function in terms of de-risking projects.
- 8.4. According to the NAO the UKGS had only issued 7 guarantees out of 200 enquires in 2015.<sup>26</sup> No new arrangements had been entered into under the UKGS by year ending 31<sup>st</sup> March 2018 either, including the new class of construction guarantees.<sup>27</sup> This might perhaps be because the process is lengthy compared to other financing or de-risking options.
- 8.5. Finally, the scheme is limited by constraints around state aid rules.

## 9. In what new ways could private finance be used to improve the delivery, management and performance of government-funded infrastructure projects?

- 9.1. We identified in our report, *State of the Nation 2018: Infrastructure Investment*<sup>28</sup> that there is a need for alternative funding and financing approaches to help ensure that gaps in infrastructure investment do not appear in the future. Full discussion on suggested models, including, asset recycling, land value capture, crowdfunding and market-led proposals in rail, can be found in the report, however we have summarised them below.
- 9.2. Asset Recycling**
- 9.3. Government can act as a provider and builder of economic infrastructure which can then be sold or licenced as a concession for profit. This can act as a virtuous circle of development, providing ready made solutions for sale to institutional investors who prefer investing in completed projects,
- 9.4. This is particularly advantageous if it takes the Governments expertise and ability to borrow cheaply and build at scale in a way which would be difficult or expensive for private investors and could provide an ongoing revenue stream for government which can then be reinvested.
- 9.5. According to the International Monetary Fund the UK had capital stock worth some \$1,254bn in 2015.<sup>29</sup> Australia, with a much more modest stock worth around \$364bn has used its asset base to fund new regional infrastructure.
- 9.6. Importantly the Australian system mandates that any proceeds must be re-invested in additional infrastructure. If the UK Government were to replicate the scale of the Australian effort, some 11% of total assets, it could raise some £137bn in equity.

<sup>26</sup> National Audit Office (2015) [UK Guarantees scheme for infrastructure](#)

<sup>27</sup> HM Treasury (2019) [Infrastructure \(Financial Assistance\) Act 2012: annual report for year ending 31 March 2018](#)

<sup>28</sup> ICE (2018) *State of the Nation 2018: Infrastructure Investment Report*

<sup>29</sup> International Monetary Fund (2015) [Making Public Investment More Efficient](#)

### 9.7. Land value capture

- 9.8. Capturing the direct benefit to residential, business and land values of infrastructure development is a potential source of revenue which is currently underutilised.
- 9.9. According to Transport for London the uplift in residential values from the completion of the Jubilee Line extension was of the order of 30%, whilst Crossrail has allowed for new residential development, with a 50% increase in density of new housing within 500 metres of a Crossrail Station. This has allowed for greater capture of revenue through council tax whilst commercial land values have increased by around 1-2.5% per year.<sup>30</sup>
- 9.10. The model has been successfully used elsewhere, including Hong Kong, through the Rail Plus Property model and Australia, where the State of Victoria have set out an action plan for reform through charges on development, a tax on property owners in the area of development and betterment levies.<sup>31</sup>

### 9.11. Community level crowdfunding

- 9.12. Investment in infrastructure has a high barrier of entry which can limit project and programme financing to investors with a high worth, generally institutional investors and governments. This has led to a tendency to exclude individual investors of more modest means from infrastructure investment.
- 9.13. Technological solutions are emerging which could serve to unlock this potential additional investment capital, diversifying routes to capital realisation for all projects. Crowd funding and peer-to-peer programmes enabled by Blockchain offer the potential for projects to seek financing from alternative and non-traditional sources outside of established lines of finance.
- 9.14. According to the Cambridge Centre for Alternative Finance the UK online market for alternative finance sat at £4.6bn in 2016<sup>32</sup> and according to theCityUK, peer-to-peer and crowdfunded business lending grew by 36% to £1.23bn.<sup>33</sup>
- 9.15. There are good examples of successfully crowdfunded infrastructure projects around the world. Solar Roadways raised \$2.2m through a crowd fund in 2014 as a start up to develop solar panel roadways whilst on the community level, the Liverpool Flyover project, a plan to refurbish the Churchill Way flyover into an urban park raised £43,809 from residents and businesses.<sup>34</sup>

### 9.16. Market-led proposals in rail

- 9.17. Market-led proposals in rail are a potentially promising avenue for future private investment. A culture of recognising and supporting routes to market for private delivery and ideas which should help to increase capacity, can improve business and commuter experiences and drive up spending works well in countries around the world, with Australia as a standout example.
- 9.18. ICE would encourage the Government and other clients wanting to use this model, to consider how intellectual property can be protected, or rewarded in the event of a successful bid. Infrastructure clients have adopted an intellectual property reward approach in the past. London Underground introduced an Innovative Contractor Engagement programme in 2011 to ensure 'good ideas the market has in response to project requirements can be brought forward and developed with the client'.<sup>35</sup>
- 9.19. The alternative is to consider a one stage model where the proposer of a market-led proposal is awarded a contract so long as they fulfil policy objectives, demonstrate value for money, have safeguards in place which would ensure any lack of a competitive process is proportional and meets public interests.

---

<sup>30</sup> TfL (2017) [Land value capture](#)

<sup>31</sup> Ibid

<sup>32</sup> University of Cambridge, Cambridge Centre for Alternative Finance (2017) [Entrenching Innovation](#)

<sup>33</sup> TheCityUK (2018) [An Engine for growth the role of financial and related professional services in society](#)

<sup>34</sup> Spacehive (2014) [The Flyover for Liverpool](#)

<sup>35</sup> London Underground (2014) [Innovative Contractor Engagement](#)

## 10. What is your view on the effectiveness of the existing government tools to support the supply of infrastructure finance?

- 10.1. As discussed under question eight, whilst the UKGS is a potentially vital tool to support projects which would otherwise struggle to raise finance, it has been underutilised to date. This might, however, change if access to alternatives, like the EIB, is lost in the short-term and a downturn or increase in interest rates raises the cost of capital.
- 10.2. The NICP was designed, in part, to provide the built environment sector and investors with a forward view of activity which would allow the sector to plan, give businesses some surety of future work and allow time for private investors to marshal funds to help support long-term projects.
- 10.3. A viable and extensive pipeline is also a fundamental requirement for the sector to invest in people and skills. Unless there is a clear roadmap of projects to plan around it can be difficult to justify investment if there is a significant risk these skills will not be deployed. This is especially sensitive in a sector with endemically low margins and high competition.
- 10.4. However, there is a concern that the NICP lacks sufficient detail about projects and that there is not a significant pipeline of works beyond 2021 – with almost half of committed spend on the pipeline due to be delivered within the next three years. Including information about the variability of returns, more detail on known risks and an estimate of the expected scale of different projects and how this might change would be extremely useful to the investment community in aiding their investment planning.

## 13. Which sectors or types of infrastructure may need support from government to raise the finance they need, particularly in light of major technological changes?

- 13.1. The need for a new tax regime for roads driven by foreseeable technological changes has been put forward previously under question 5 and will need support from Government to deliver.
- 13.2. A sector which has also struggled to raise private finance and is likely to do so for the foreseeable future, is flood defence. Whilst there is not a technological challenge to overcome, there is an environmental imperative with the risk of climate change. Flood events continue to cause large-scale disruption to communities and critical services and impose large economic losses with 2.44 million properties at risk of flooding from rivers and the sea, 3 million from surface water flooding, and 244,000 are at high risk of flooding.<sup>36</sup> These numbers are set to increase in the future due to population growth and climate change, even if investment in flood defences was to increase.
- 13.3. ICE set out in our *State of the Nation 2018: Infrastructure Investment*<sup>37</sup> report that there should be additional support for the development of technologies which can further development of renewable technologies. In particular continuing use of pot one Contracts for Difference to further increase renewable generation and expanding support, through pot two, for emergent technologies. Pot two should be used in a way which furthers support for security of renewable supply in the form of energy storage technologies.

---

<sup>36</sup> ICE (2016) [National Needs Assessment](#)

<sup>37</sup> ICE (2018) *State of the Nation 2018: Infrastructure Investment Report*

## 14. In your view, how effective is the current institutional framework at ensuring good projects can raise the finance they need?

- 14.1. ICE defines a good project as one which we would consider to be viable in terms of planning consent, clear revenue streams and feasibility, meets government aims and improves the social, economic and environmental state of communities or the nation.
- 14.2. The Government's support mechanisms are often effective. In the case of projects like Thames Tideway, the Government, regulator and private partners have demonstrated flexibility to meet the project's uniquely complex needs. Where there is political will and clear need the current institutional framework can deliver when required.
- 14.3. A separate question might be whether the finance raised is used well. Project outturn globally tends to outstrip estimates in nine out of ten projects worth over \$1bn in major projects.<sup>38</sup> In the long run it is important that financiers and clients can trust that estimates are accurate, as the cost of re-financing can be significant and cause additional difficulties.
- 14.4. ICE has set out how this might be possible, by focusing on how the narrative on major projects in particular can be shifted toward benefits, and project costs estimates be more realistic through reform of estimating and procurement practices in our report *Reducing the gap between cost estimates and outturns for major infrastructure projects and programmes*.<sup>39</sup>

## 15. Is any reform to the UK's institutional framework needed to better provide support to the market?

- 15.1. ICE believes that in the long-term the National Infrastructure Commission (NIC) should be placed on a statutory footing.
- 15.2. Placing the NIC on a statutory footing would provide the organisation with a greater sense of authority and signal to the infrastructure sector that its advice – both impartial and expert – is important to the Government's long-term infrastructure planning strategy. As importantly, it would also demonstrate surety to the financial community – 91% of whom agreed with statutory independence for the NIC.<sup>40</sup>
- 15.3. This would also give the NIC, and any UK finance institution, a degree of separation from the Government of the day. As an executive agency of the Treasury the NIC can be dissolved without any of the safeguards afforded to a body with a statutory footing, meaning it currently has less permanence.

---

<sup>38</sup> Bent Flyvbjerg (2014) [What you should know about megaprojects, and why: An Overview](#)

<sup>39</sup> ICE (2019) [Reducing the gap between cost estimates and outturns for major infrastructure projects and programmes](#)

<sup>40</sup> DLA PIPER (2018) [UK Infrastructure: Defining the Future](#)

## 16. In the event that the UK loses access to the EIB, do you agree with the NIC that the government should establish a new, operationally independent, UK infrastructure finance institution? If so, what should its mandate be, and how should its governance be structured?

- 16.1. The UK benefits in numerous ways from access to EIB finance and expertise. The Government should seek to maintain access to the EIB on the same or similar terms whatever the outcome of the current political process of Brexit.
- 16.2. In the event the UK does lose access to the EIB the Government must seek to replicate the functions, purpose and mission of the EIB through a UK financial institution.
- 16.3. The EIB has had a number of positive effects on the UK's infrastructure sector:
- It played a critical role in supporting the UK economy directly and indirectly by continuing to provide support after the 2008 financial crisis.
  - It provides anchor investment, drawing in private finance by acting as a first mover on projects which might otherwise struggle to obtain financing.
  - It acts as a source of affordable finance for projects through its commercial practices.
  - It has a mandate to invest in environmental, social and regional development which goes beyond commercially driven considerations.
  - The bank is, further, a centre of financial and technical expertise in infrastructure investment.
- 16.4. These effects must be preserved in the UK context. There is a need to identify and counteract market failures in the infrastructure finance sector. These include the need to support development in less economically developed regions, or where the cost-benefit analysis might be low in economic terms, but high in social or environmental terms.
- 16.5. Concerns about the availability of finance, or perhaps the willingness to invest, from private sources during an economic downturn also call for institutions which have the ability to provide support where market conditions deteriorate.
- 16.6. There is also an ongoing market failure in the built environment sector with regards to innovation. A UK financial institution which invests in projects with higher risk profiles, or untested technologies, where the private market might not, would support development in the sector.
- 16.7. Whilst some might have concerns that the provision of cheaper capital, can act to crowd out finance from other sources, the role this plays in supporting otherwise unattractive projects helps to bring viable or 'good' projects to market and supports the business case for projects accessing this finance.
- 16.8. There is, finally, a need to maintain and expand the UK's expertise in financial management and technical delivery of projects, particularly major projects and programmes. A dedicated UK financial institution would help to consolidate the considerable expertise available to the Government already through the IPA, NIC and other agencies and institutions.

## About ICE

Established in 1818 and with over 93,000 members worldwide, the Institution of Civil Engineers exists to deliver insights on infrastructure for societal benefit, using the professional engineering knowledge of our global membership. For more information please contact:

**Martin Shapland**, Policy Manager, ICE Email: [policy@ice.org.uk](mailto:policy@ice.org.uk)