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consultancy engineering business environment

Infrastructure Bank

How an infrastructure bank would work

An ACE publication

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ACE suggests:

- If an infrastructure bank were to be set up it would need to:
  - Have a clearly defined remit, and suitable targets;
  - Be a source of confidence for the markets;
  - Have skill sets conducive to investment, including engineering and financial expertise;
  - Have transparent funding arrangements to help provide security and confidence in the institution; and
  - Be able to provide accurate risk analyses of the investment options available.

Infrastructure banks – how could such an institution operate?

This paper aims to explore how an infrastructure bank could operate and its possible sources of finance. It draws upon previous calls by ACE for further exploration of both more traditional and new forms of infrastructure spending stimuli, including:

- Avoiding the infrastructure crunch. ACE identifies the problems and suggests policy solutions;
- Infrastructure bank. ACE sets out the case for an infrastructure bank;
- Infrastructure gilts. ACE's proposal to create an infrastructure gilt to drive investment in transport, energy and utilities; and
- Infrastructure assessment. ACE’s proposal for an audit of the UK’s existing infrastructure.

Infrastructure bank

The economic climate and lack of investment confidence has led to suggestions that an infrastructure bank may provide the best solution to the infrastructure crunch.

How the bank would operate?

Would it fund projects directly using private or public money, or would it be there purely as an intermediary to assess risk and provide confidence and certainty? As an organisation, would it be set up as a single entity pulling together existing organisations such as Infrastructure UK or as an umbrella body reviewing and directing investment based upon the national government's National Policy Statements?

There are several advantages to having an arrangement where everybody is brought under one roof. It should allow for economies of scale that are not possible as separate organisations. These would include increased efficiency, strategic direction, a consistency in policy approach and the potential to access more significant forms of capital funding.

However, much will ride upon the reputation of such an organisation and its relationship with government, private companies and associations. Instilling confidence within the investment community is going to be the major issue, given the current lack of motivation to invest. Whilst size should to some extend aid success, the recent financial crisis has shown that this may not necessarily be the case.

Essential to the operation of such an organisation is the need to have the relevant set of skills that can be deployed to encourage confidence. We have seen that it is no longer enough for analysts to have an overview of what they are investing in - detailed knowledge is essential.

For example, if we consider that the bank was promoting investment within the energy sector, the company would require employees with skills in business analysis, accountancy, surveying, engineering, communications, policy and planning. This high degree of knowledge would enable the infrastructure bank to create very detailed proposals. These proposals would outline every stage of the investment process such as planning, consultation, construction, finance and environmental management. Within this, it is important that there is significant risk

analysis, clear goals and a thorough business case outlining the returns investors should expect to receive.

The current fragmented setup may be contributing to the lack of confidence. That said, creating a large conglomeration of existing companies may lead to a further dilution of skills due to the breadth of knowledge that such an organisation would require.

Funding will be vital but this is also dependent upon how the bank works. If the bank is to be run as a purely commercial organisation (such as banks in the open market), and given that the returns would be over a long, sustained period, there may initially be some issues with cash flow positions. Once set up there is no reason why the bank could not manage a portfolio of investments (all safe in market terms but providing a varying degree of risk), taking a set percentage from returns or repayments before they were passed onto those who have invested in the bank.

Another option could be to part fund projects with a split between government and private companies. The funding for the bank's operations could be provided in the same way as above, or could be subsidised by government to ensure the financial security of the bank during the planning and execution phase of the project. This could be done by the government directly financing aspects of the bank and projects, or by underwriting a phase of the project or proportion of the total cost.

The support of the government should theoretically build confidence in the security of the bank and that any projects would go ahead. This is important given that not all investors are able to asses these risks independently. For instance, pension funds are not geared to asses the risks involved in such projects.

It is important to try and maintain the efficiency and investment potential driven by the private sector while allowing for the security of central government. There is no reason why the government - with a vested interest in such projects - could not also derive a degree of income or return for itself.