

## CSFI/Pension Insurance Corporation Pensions Fellowship programme

**How best to renew the UK's infrastructure? A breakfast round-table with Sir John Armitt (ODA), Geoffrey Spence (HM Treasury), Tracy Blackwell (PIC) and John Llewellyn (Llewellyn Consultancy)**

**Tuesday, March 11, 2014, at the London Capital Club, 15 Abchurch Lane, London, EC4N 7BW**

The Starting point for the round-table was The Armitt Review of long-term infrastructure planning, commissioned by the Labour Party but independently conducted. Sir John Armitt explained his proposal for a National Infrastructure Commission that would set out a 25-30-year, evidence-based view of the nation's infrastructure needs. Once adopted by Parliament, government departments would produce 10-year delivery plans, involving the private sector which owns 60% of the UK's infrastructure. The Commission would monitor implementation and revisit its long-term plan every 10 years.

The idea was not so much to take the politics out of infrastructure planning but to get political support for a national plan, which would help MPs deal with local objections. Regulators also needed to temper their focus on keeping down costs to the consumer with a responsibility to ensure that utilities were developed to cater for long-term customer needs.

Funding, or affordability, would be tackled by the Commission. This would include looking at charges such as road-use pricing.

Countries cited as doing a better job on infrastructure planning than the UK included Australia and Singapore.

### **Project pipeline**

£370bn investment envisaged by public and private sector over the next 10 years, mainly in energy and transport. On the former, government guarantees have helped secure private sector backing eg for building nuclear power plant. On the latter, Network Rail's 5-year plan – on a 10-year review of needs – was “a bit of a model”, while the publicly funded road-building programme was set to be the biggest since the 1960s-70s.

### **Financing**

The government was trying to remove obstacles to investment both by foreign funds, notably from China, and pension funds. The Pensions Infrastructure Platform (PIP), an NAPF and PPF initiative, had been set up to solve the problem of a lack of infrastructure investment expertise in the UK's fragmented pension fund sector.

The main challenge was funding for long-term projects. While PFI hospitals were popular, pension funds were said to be generally nervous of construction risk. The guarantee scheme should help with this, but there had been no inquiries for this from pension funds.

### **Pensions industry structure and insurance regulation**

The UK's fragmented picture contrasted with countries, such as Australia and Singapore, where there were big savings pools. Resources and skills needed

to be built up in the UK so that there could be centres of expertise. This would include the ability to assess the risk of taking an equity position in projects that were typically 90% debt funded, 10% equity.

The problem for insurers, however, was that investing in equity stakes was very expensive in terms of capital requirements. Debt funding was much less of an issue.

#### **What the private sector is looking for**

- regulatory certainty from both the prudential regulator and utilities regulators;
- better access to deals where the private sector currently feels crowded out by the public sector or taxpayer-subsidised entities such as the EIB;
- a pipeline of projects structured in a way that the private sector can buy into. This meant finding structures that gave greater certainty to investors: government guarantees and covered bonds might be two ways of doing this.

#### **Political issues**

The UK media were too concerned about “rip-offs”: infrastructure had to be paid for. If the costs of a project outweighed the financial benefits, it may still be worth doing for social or strategic reasons. The government could then decide whether it was worth paying the additional amount and how to fund that. There were, however, limits to how much extra consumers could be charged.

Most of the contentious issues were local: politicians were doing their job in representing the views of those who elected them. The political process delivered consent with democratic accountability.