The Investment Association's Response to HM Treasury's Consultation on the National Infrastructure Commission

The Investment Association represents UK investment managers. We have over 200 members who manage more than £5 trillion for clients around the world. Our aim is to make investment better for clients so that they achieve their financial goals; better for companies so that they get the capital they need to grow; and better for the economy so that everyone prospers. Ultimately much of what they manage belongs to the man in the street through their savings, insurance products and pensions.

Our members, acting on behalf of institutional investors including insurance companies and pension schemes, represent a significant source of finance for UK infrastructure projects, both through the public debt and equity markets as well as private investments by purchasing private equity and investing in private placements (ie. unlisted debt).

The Investment Association welcomes the creation of the National Infrastructure Commission. The development of the Commission offers an opportunity to ensure that there is:

- Strong co-operation between the Commission and governmental stakeholders such as the UK government, devolved governments, departmental bodies, and regulators; and
- Strong engagement between the Commission and investors.

We would also welcome the inclusion of social infrastructure within the Commission's remit.

We do not respond to every question in the consultation, and instead focus on the core issue of the need to address the negative impact of political risk on infrastructure investment.

Addressing political risk with the National Infrastructure Commission

Infrastructure projects tend to yield stable, predictable and long-term cash flows over a long period, potentially for 35 years or more. Infrastructure investments are therefore highly useful to investors who need to match long-term liabilities. This long-term patient capital (both debt and equity) is particularly valuable to the infrastructure sector given the economic longevity of the asset base. Such funding is enabled by a range of considerations, at the heart of which lies the need for political certainty. Given the long-term nature of the investment required for infrastructure projects, investors must be able to make reasonable predictions as to the future regulatory framework.

Political uncertainty and a lack of clarity as to the investment pipeline can have a negative impact on investors' appetite for investment in infrastructure. For example, recent changes to the UK's approach to the renewable sector by discontinuing the Levy Exemption Certificates (LECs) from Climate Change Levy and a lack of clarity on the future pipeline of projects under the Contracts for Difference regime has had a negative impact on investors' perception on the UK energy sector.

Different governments will have different priorities, and as a result infrastructure policy can vary from one Parliament to the next. Investors understand that policies may change to reflect broader economic and social conditions and considerations. However, without long-term policy certainty investors find it difficult to make long-term investment decisions. As a result of this perception of political risk, there is a risk that:

- Infrastructure projects will face higher costs of capital as investors will require higher returns to compensate for that risk; and
- Investors will seek to withdraw from investing in UK infrastructure projects as the risks will no longer be in line with their investment objectives and risk-reward profiles.

The Investment Association therefore welcomes the introduction of the National Infrastructure Commission. It is to be hoped that the National Infrastructure Commission will not only provide an independent assessment of the UK's major long-term infrastructure needs, but in doing so will help create a steady pipeline of infrastructure projects for investment.

Additional considerations

The Investment Association believes that for the National Infrastructure Commission to be effective, there must be close co-operation between the Commission and the UK government, devolved governments, regulators, and departmental bodies. We therefore welcome any efforts to ensure sufficient information sharing and consultation between the Commission and these stakeholders.

It is similarly important that the National Infrastructure Commission consult with other stakeholders, including investors. Investors have on occasion found it difficult to engage directly with governmental policy-makers, creating information blockages on both sides. The creation of the Commission offers an opportunity to strengthen this engagement, which will provide investors with a greater sense of certainty as to future policy and to the infrastructure pipeline, while providing policy-makers with a greater understanding of investor needs in order to ensure projects are financed.

The consultation states that the Commission "will not make recommendations on social infrastructure, such as hospitals, schools and prisons." It is not made clear why social infrastructure is being excluded from the National Infrastructure Commission's remit. The Investment Association notes that concerns about political risk apply to social infrastructure projects as well as economic infrastructure projects, and as such would welcome the inclusion of social infrastructure within the Commission's remit.

Conclusion

Market-based finance for infrastructure depends on policy certainty, and policy risk remains a significant obstacle to infrastructure investment. The investment industry is keen to work with Government to ensure that policy changes do not disrupt the long-term stability necessary to ensure capital market funding is available.

The Investment Association considers that for the Commission to be a success, there must be:

- sufficient engagement and consultation with governmental and other stakeholders, including investors;
- a holistic approach to UK infrastructure, which includes social infrastructure.

The Investment Association would welcome further discussion of the points we raise in our response.