

# Kwasi Kwarteng: Does the UK need its own infrastructure bank?



*How can the UK translate its infrastructure ambition into reality in light of Brexit? Could part of the solution be the creation of a domestic equivalent to the European Investment Bank? [Kwasi Kwarteng MP](#) writes that, whilst offering several advantages, there are practical and fiscal reasons why a domestic infrastructure bank is currently an unrealistic prospect.*

Economists and policymakers are in agreement: investment in infrastructure improves economic performance and productivity, which in turn improves prosperity, wages, and living standards. As Member of Parliament for Spelthorne, I fully appreciate the importance of this investment as approximately 4000 residents in my constituency work at Heathrow Airport and many more are employed indirectly. Consequently, I have seen first-hand how improvements to national infrastructure can bring vast benefits to the local economy.

Nevertheless, as the example of Heathrow demonstrates, there are several challenges to translate infrastructure ambition into reality. Aside from political complexities, issues of funding and, of course, the UK's departure from the EU loom large over future infrastructure projects. Both issues have become intertwined as the UK contemplates its future relationship with the European Investment Bank and considers creating a domestic equivalent.

For too long, successive governments have failed to invest properly in infrastructure. According to [an OECD report](#), the UK has lagged behind its competitors on infrastructure spending for thirty years. To tackle this underinvestment, the government has [doubled investment](#) in economic infrastructure from £12 billion in 2012-13 to £24 billion in 2022-23 – a real terms increase of approximately 60%.

Of equal importance to investment is the ability to develop a long-term approach to what is a long-term challenge. Recognising this, the government has made infrastructure development a key strand of its [industrial strategy](#). The strategy is supplemented by the £31 billion [National Productivity Investment Fund](#), which will target high-value projects in economic infrastructure, housing and research and development. The government has also improved planning and delivery by establishing the [Infrastructure and Projects Authority](#) and the National Infrastructure Commission to advise on long-term objectives.

As part of this approach, the 2017 National Infrastructure and Construction Pipeline sets out £460 billion [planned infrastructure investment](#), offering certainty to investors and encouraging future investment. The private sector will be responsible [for delivering 45% of the £240 billion](#) to be invested by 2021.

The issue of private sector companies delivering public services has provoked considerable debate recently. Whilst much of this debate is warranted, it is important not to lose sight of the fact that private investment is absolutely vital if the UK is to build the critical infrastructure it needs. There are clear benefits to private sector involvement: it provides alternative sources of investment, it increases efficiency by delivering projects on time and on budget, and fosters innovation. It also allows [multiple projects to be undertaken concurrently](#), something which is beyond the means of most governments.

As the private sector is central to the government's infrastructure plans, it is understandable there has been some unease regarding the availability of European Investment Bank (EIB) funding post-Brexit.

The EIB, and its subsidiary, the European Investment Fund have been vital sources of funding for infrastructure projects. From 2011 to 2016, [the EIB invested €36.1 billion in UK projects](#) – although in 2017, this decreased to €1.8 billion. In addition to providing loans at low rates, the EIB also encourages private investment by undertaking due diligence for investing in [innovative technologies and insecure projects](#). This investment has aided some of the UK's most-high profile infrastructure projects, such as the Thames Tideway Tunnel and Crossrail, not to mention the Heathrow Express.

While it is beyond the scope of this article to predict the shape of future Brexit negotiations, the Chancellor, Philip Hammond [has been clear that](#) 'it may prove to be in the mutual interest of all sides for the UK to maintain some form of ongoing relationship with the EIB Group after leaving the EU'.

Nevertheless, the government has taken measures to ensure that businesses can still access investment if negotiations falter. The [UK Guarantees Scheme](#), which supports private investment by offering government-backed guarantees to help projects access debt financing, has been expanded to include construction guarantees. So far, it has supported approximately £4 billion worth of investment. The government has also provided targeted investment support in areas such as Digital Infrastructure Investment, by increasing [access to private finance for broadband companies](#). Additionally, the [British Business Bank](#) will increase the limit it invests in venture capital funds from 33% to 50%, and some of the £400 million previously announced will be brought forward.

Several commentators have suggested that a domestic infrastructure bank could fill the void if the UK was unable to access EIB support. The [LSE Growth Commission](#) have promoted the creation of such an institution arguing that it would 'help to reduce policy risk and...make investments that could then provide powerful examples with catalytic effects on private investment'. Indeed, examples from around the world demonstrate the success of such institutions.

Closer to home, the [Green Investment Bank](#), established in 2012, was very successful at encouraging private sector investment. It committed £3.4 billion of capital to 100 green projects with a total value of £12 billion, which included 100 co-investors, many of whom had never invested in green infrastructure before.

Nevertheless, there are [several challenges](#) to establishing an infrastructure bank, namely: cost, timeframe, and its impact on the government's balance sheet. [Some reports](#) have suggested the formation of a domestic bank could cost approximately £15 billion to £20 billion, far more than the estimated £3.1 billion capital the EIB has agreed to return to the UK. Furthermore, EIB president, Werner Hoyer [suggested](#) establishing an equivalent institution could take 10 years.

More importantly, it is highly likely that an infrastructure bank would be added to the government's balance sheet, as its lending would add to Public Sector Net Debt (PSND). This would potentially jeopardise the government's fiscal target of reducing PSND, as a percentage of GDP, in 2020-21. Since 2010, the government has worked diligently to restore public finances to health but despite nearly achieving its target of reducing debt as a percentage of GDP, [debt still remains too high](#).

Finally, the government should only intervene where there is a market failure – for example, the stream of investment into [the green economy](#) – and [the central issue for infrastructure](#) is obtaining long-term funding not the availability of financing.

Whilst offering several advantages, there are clear practical and fiscal reasons why a domestic infrastructure bank is an unrealistic prospect at this stage. Nevertheless, the government is committed to exploring all avenues to ensure that infrastructure investment remains at the core of its economic strategy.

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Note: In April 2018 Kwasi Kwarteng was speaking at an [LSE event](#) hosted by the Department of Economics. A podcast is available [here](#).

### About the Author



**Kwasi Kwarteng** has served as Conservative Member of Parliament for Spelthorne since 2010.

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