

## **GIIA Response – Call for Evidence (February 2023)**

### **Public Accounts Committee – Supporting investments in the UK**

#### **Background**

The Global Infrastructure Investor Association (GIIA) is the membership body for the world's leading institutional investors in infrastructure. Our members (a full list of which can be found appended to this document), operate in 70 countries across six continents. Collectively, they are responsible for over £1 trillion of infrastructure assets under management globally. Our members have substantial interests in the UK, with close to a quarter of the £1 trillion invested in the UK.

Our members are committed to delivering the smart, resilient and sustainable infrastructure of the future, with their investments spanning sectors from renewable energy to digital, utilities to transport and beyond. In recent years the growing prevalence of emerging technologies such as hydrogen have highlighted a new wealth of opportunities for greater investment in the UK.

Framed by the backdrop of a cost-of-living crisis and greater awareness of the need for progress towards our net zero objectives, there has never been a more important time for the UK to attract investment in its critical national infrastructure. GIIA welcomes the Committee's inquiry into supporting investments in the UK. Only through unlocking the huge potential of private capital will we keep pace with an ever-evolving set of challenges.

There is an acute need for the UK to continue actively competing with other international markets for Foreign Direct Investment (FDI). In recent years, other primary markets have formulated new approaches and incentives to attract inward investment, with notable examples including the Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act (IIJA) in the United States, alongside the EU's Green Deal Industrial Plan (GDIP). The UK government should work towards creating a progressive policy and regulatory framework that will deliver clarity and predictability for the investor community, and that will unlock large-scale investment in infrastructure.

We are writing to provide a set of high-level thoughts on the three core areas identified by the Committee, to help share the investor perspective on these important policy areas.

#### **A strategy for attracting investment into the UK**

As the GIIA's membership illustrates (representing a mix of pension funds, fund managers, insurance companies, corporate investors and sovereign wealth funds), the investor community comprises a huge variety of portfolios, minimum investment thresholds and risk appetites. Any strategy for supporting investment needs to both acknowledge and appeal to the diverse profiles of the investor community to the greatest extent possible.

From the GIIA's perspective, there are two overarching principles that should remain at the very heart of a strategy for supporting investment into the UK: policy clarity and incentive-based regulation.

Consistency in approach and adherence to the timely delivery of key policy guidance is fundamental in future-proofing investor confidence. In some instances, a mismatch between the pace of policy decisions and investors' decision-making timelines has acted as a key barrier for the investment community. To give an example, there has been a degree of misalignment between government policy on heating and blending uses of hydrogen, and the decisions that investors must take. If there is an identified need to attract private investment into more nascent forms of technology, it is fundamental that policy roadmaps build in sufficient time for decision-making.

The UK government should give greater focus to setting out route maps for investors and developers against clear timelines, and then adhere to both. This will build confidence in the sectors in which it seeks investment. Similarly, there is a need for visible pipelines of investable opportunities, with clarity around the funding models available to investors.

It is important to note that finance is rarely the constraint when it comes to investing in high quality infrastructure. The issue is most commonly a lack of clarity over the funding mechanism.

As a core example, both the Contracts for Difference (CfDs) and Regulated Asset Base (RAB) models are well-known and understood by the investor community, in the context of delivering stable and predictable returns. In halting the use of the PFI model, however, the UK has removed a key tool from its toolbox. It is high time that the Government looked to see how the PPP model has been successfully deployed in many competitor markets and learn from international experience.

It is also important to consider the role that the UK Infrastructure Bank (UKIB) could play in the Government's strategy to support investment into the UK. With its remit to 'crowd in' private capital, the UKIB could be an attractive partner in de-risking investment, especially in nascent technologies.

The regulatory framework is a fundamental aspect of any strategy to support investment. Although not directly within the remit of the Department for Business and Trade (DBT), there is a need for existing frameworks to be reconsidered, to determine whether they are fit for purpose in the current climate.

Historically, the UK was considered as having the 'gold standard' of regulation. However, in recent years the framework has failed to keep pace with an evolving set of contextual pressures and governmental objectives. The process surrounding economic regulation has become overly complex, costly, burdensome and polarised, with too much of a focus on the short term. The concept of agile, light touch regulation seems to have become lost, and regulators are often operating in the absence of clear government policy.

Finally, a government strategy for supporting investment into the UK must recognise the vast array of international opportunities available to investors at any given moment. In an increasingly global market, and with other core regions such as the US bolstering their offering to investors (through the IRA and IIJA, for example), the UK must strengthen the signals and support it extends to the investor community.

## **How the Department delivers its inward investment strategy**

In GIIA's experience, the DBT (and its predecessor) the Department for International Trade, has good engagement with the investor community, is open to two-way communication flows and is clearly open to receiving views from investors, that play an important role in helping to inform key policy decisions. However, GIIA would like to see more visible support, in the form of a joined up, cross-departmental strategy focusing on the 'investability' of the UK. The creation of DBT by merging the business and international trade departments merging of DIT and into one could be a helpful opportunity in this regard.

Several government departments straddle and have oversight of specific infrastructure sectors to which private capital actively contributes. These include the Department for Energy Security and Net Zero (DESNZ), Department for Science, Innovation and Technology (DSIT), Department for Culture, Media and Sport (DCMS), Department for Environment, Food and Rural Affairs (DEFRA), and Department for Levelling Up, Housing and Communities (DLUHC).

More broadly, HM Treasury, HMRC and the Office for Investment also have important roles in coordinating and implementing an effective inward investment strategy. Even the Home Office has an impact with its recent National Security Bill and proposals for a Foreign Influence Registration Scheme, both of which have the potential to negatively impact investor sentiment towards the UK.

From the investor's perspective, what the UK Government needs to do is ensure a coordinated and consistent approach across these various government departments, led by Business and Trade. This would be crucial in helping to instil confidence within the international investor community.

## **Whether government activities are having an impact**

The GIIA in partnership with its member Alvarez & Marsal, an international management consultant, undertakes a bi-annual survey of global investor sentiment. This Pulse Survey acts as an important litmus test that reveals both the relative attractiveness of regions around the world, as well as the key barriers to investment.

Our most recent survey took place in the second half of 2022, and it highlights a notable deterioration in the relative attractiveness of the UK compared with other markets.

The biggest barriers perceived by investors are political instability and regulation-based obstacles. These findings clearly demonstrate that broader external factors, where government has significant influence, can play a large part in determining the UK's investment climate.

## **Key issues**

We believe there are some important questions that the Committee may wish to consider:

- How can DBT ensure the UK offers a prime environment for investment in an increasingly competitive global market?
- How can DBT help coordinate a more 'joined up' approach towards investment across government – tackling, for example, the negative implications of the Home Office's 'Foreign Influence Registration Scheme' (FIRS)?

- How can DBT encourage and collaborate with the UK Infrastructure Bank to ensure it helps crowd in private capital?
- How can DBT work with other government departments to ensure that:
  - National Infrastructure Commission recommendations are acted upon and delivered?
  - appropriate funding models are in place to attract investors?
  - investors perceive a clearly visible pipeline of attractive opportunities?

## **Summary**

The Department for Business and Trade plays a key role in providing signals to the worldwide investor community. As the department with primary responsibility for fostering greater trade and inward investment flows, the GIIA believes its engagement is largely positive - particularly the willingness to listen to the views of investors.

We commend DBT Ministers and officials, past and present, for their positive engagement with the GIIA and our members. We now urge the Government to go further and provide DBT with the resources and influence to convene across government, so as to ensure a consistency of message that could make the UK a number one destination for infrastructure investment.

At a time of unprecedented challenge and opportunity, a coordinated and collective effort is needed to mobilise the full potential of private capital, so that the UK attracts the investment that will enable its infrastructure to keep pace with fast-evolving societal and environmental needs and threats.

In addition, a high-profile, Inward Investment Strategy that positively shapes the climate for infrastructure investment would be strongly welcomed by global investors, as a sign of the Government's long-term commitment to attracting private capital to the United Kingdom.

## APPENDIX ONE – GIIA MEMBER COMPANIES

