Trajectories of Infrastructure Financing and Macroeconomic Policies in Practice

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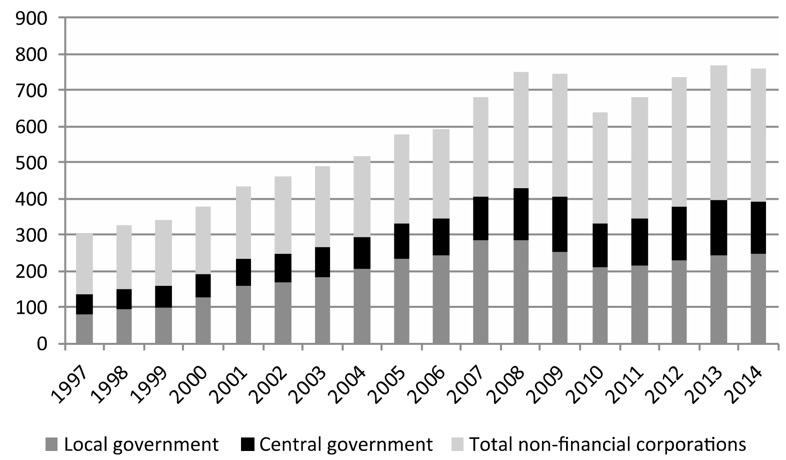
Outline

- Private finance in infrastructure in the UK (the issues)
- The research questions
- Systems of provision and interdisciplinarity (the approach)
- Methods and activities (the practice)
- Preliminary conclusions
- Next steps

Private finance in infrastructure in the UK

Net infrastructure assets by owner (£billion at current prices)



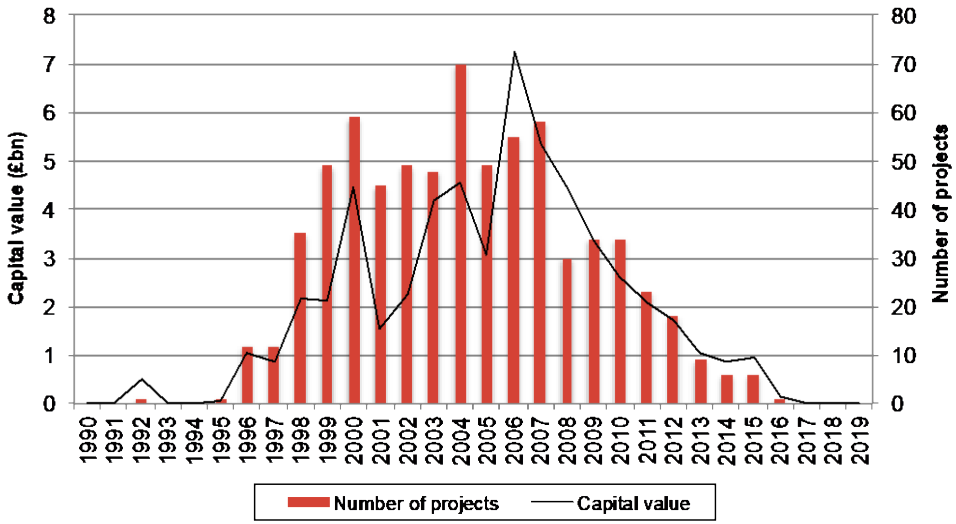
Source: Grice (2016)
Note: only economic infrastructure! Data exclude social infrastructure (health, education, prisons, housing)

Different ways of involving private finance in infrastructure in the UK:

- PFI/PF2 (social infrastructure)
- Regulated Asset Base model (in water and energy distribution and transmission)
- Contracts for Difference (renewable energy generation)

PFI model has been in trouble – abandoned for new investment in Autumn 2018.

Figure 1: Portfolio of current PFI and PF2 projects – number and capital value by year of financial close (excludes cancelled or expired contracts)



Source: HM Treasury/IPA (2019)

Also dissatisfaction with the other models!

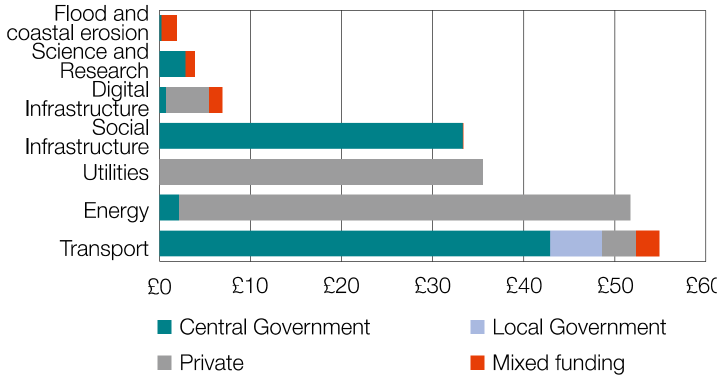
Dissatisfaction across:

- Consumers/citizen protection groups
- Regulators
- Parts of government
- Investors

“What is the success of the RAB model, because it worked previously, and investors liked it previously, and it seemed to work really well for the consumers, but at the moment, the regulators don’t like it, the government seems not to like it, at least in some quarters, and on top of that, the CfD model is currently being reviewed by the BEIS select committee. So the government basically said, we used to have three tools to finance infrastructure. We used to have PFI, but not anymore, we’ve got RAB, we think it’s great, but we are going to trash it” (Interview 6/08/2019).

Government remains however committed to private investment in infrastructure.

Funding mix of the pipeline 2018/19 to 2020/21 by sector (£bn)



Source: IPA (2018)

Obvious questions: what governance and finance forms will this involvement of private finance in infrastructure take (and with what implications)?

HM Treasury

Infrastructure and Projects Authority

Infrastructure Finance Review

consultation

March 2019

Eliciting views on "the future role of the government in ensuring that viable projects can raise the private investment they need" (p. 2)

However, at the same time: increasingly widespread demands for alternatives!

LABOUR PARTY CONSULTATION PAPER:
DEMOCRATIC PUBLIC OWNERSHIP

Designing democratic management of publicly-owned utilities.

Policy around infrastructure financing is in a state of FLUX!

Why such a strong commitment to private finance?

- Fiscal deficit
- Ideology (lack of theoretical and empirical support)
- Path dependence
- Wealth of private finance looking for assets

But **extensive criticism** of use of private finance in infrastructure:

- Contracts can be at high cost to end-users and taxpayers
- Contracts can be regressive
- Fragmentation of infrastructure
- Possible bias towards larger projects

Research questions

- Who is determining future for infrastructure finance and how?
- What are the implications of who is prevailing in how the infrastructure policy landscape is being redefined?
- What should be done differently?

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Interdisciplinarity

- Social anthropology, economics and political economy
- Traditional economic understandings of infrastructure do not give sufficient attention to the financial, political and economic realities within which infrastructure policy and practices take form.
- Need to engage with questions such as:
  - What is infrastructure?
  - For whom is it?
  - Do particular infrastructure financing and governance mechanisms and norms have implications for outcomes?
- Infrastructural turn in anthropology
- Co-production of knowledge and synthesis of perspectives

Systems of Provision Approach

- Pioneered by Ben Fine.
- Sees outcomes of infrastructure financing arrangements as result of chains of interactions.
- Structures; Processes; Agents/Agencies and Relations.
- Draws attention to connections between material features of a “system of provision” and its cultural elements.
- Theoretically informed but highly inductive.
- Well-suited to unravelling diversity and complexity.
- Offers ways of identifying systemic features of particular infrastructure financing arrangements that may be insufficiently understood.

Methods and activities

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Mixed methods research: "close-dialogue" interviewing with key stakeholders (including under Chatham House rule); attendance of industry meetings; close scrutiny of documents

Theme 1: Examine how infrastructure is understood across agents engaged in infrastructure financing processes. <u>Aim</u>: To uncover logics that prevail and cultures of expertise that are established as infrastructure financing mechanisms take form.

Theme 2: Examine what infrastructure finance has been raised, from whom, for what and on what terms.

<u>Aim</u>: To map the UK infrastructure financing landscape (who does what, in what sectors, and how), to identify specific mechanisms used to promote private investment in infrastructure.

Theme 3: Connect findings regarding nature and implications of private finance in practice (T2) with understandings, norms, cultures and narratives identified in T1. <u>Aim</u>: To identify gaps and inconsistencies in macro orthodoxies and government policy with regard to private infrastructure finance and identify areas of intervention across scholarly disciplines and government institutional practices

Preliminary conclusions

- Infrastructure policy shaped by negotiations between private finance and government institutions.

- These negotiations, subsequent contractual arrangements and their real costs and benefits are less visible to the public and institutions than ever before.

Evidence:

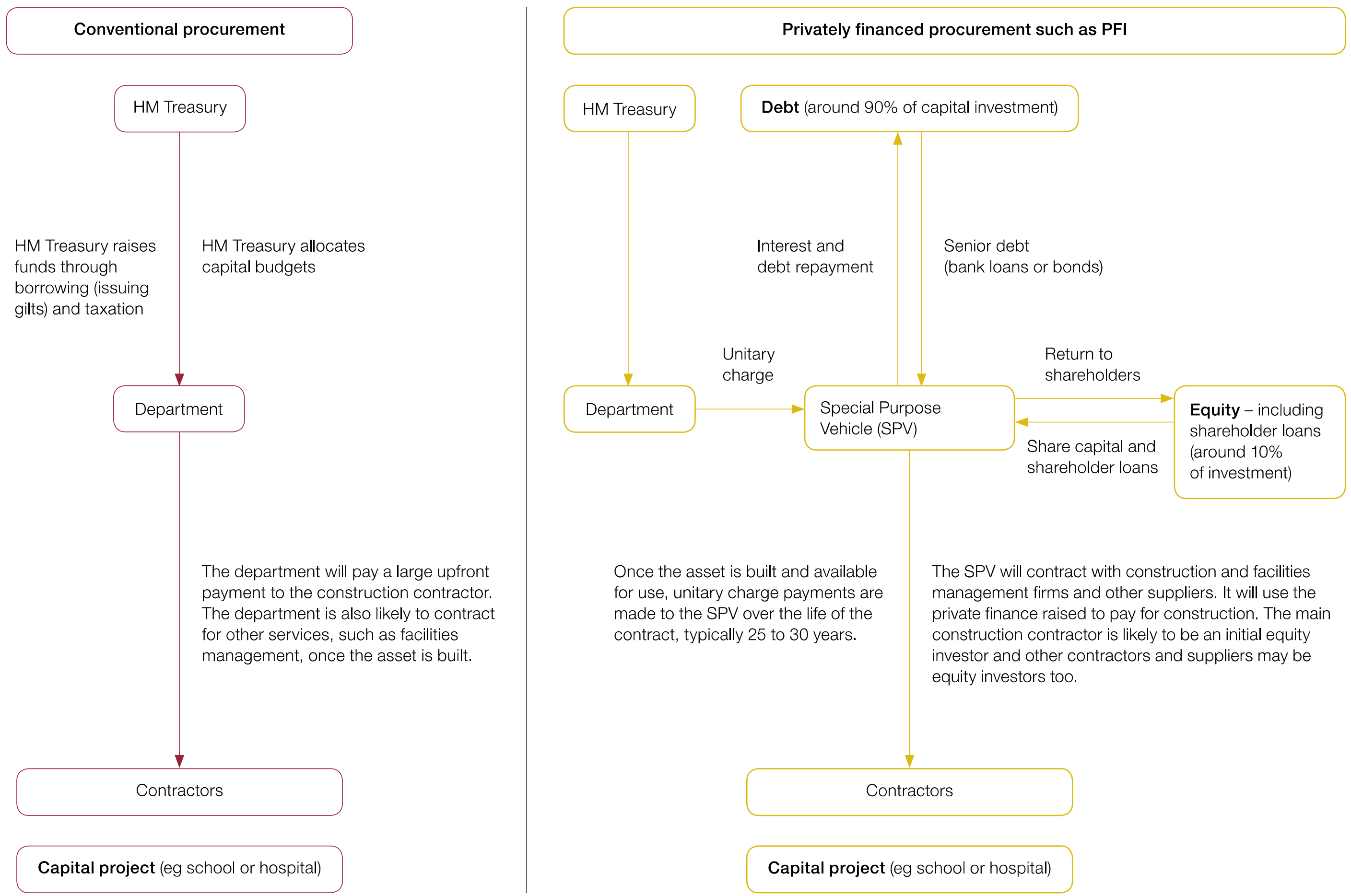
1. Abolition of PFI/PF2 in response to decline of interest of private finance in investing in social infrastructure.
2. Private finance flourishes in other sectors (renewable energy) in more invisible forms.
3. Profile of private financial involvement in these sectors perhaps more heterogenous (than in PFI).
4. Trend for continued private financial involvement reflects continued appetite of private finance for infra and political unwillingness to reverse privatisation policy (despite weak theoretical and empirical evidence).
5. Increasing dissatisfaction from within investor community with policy sphere.
6. Creates particular tensions in reliance of government on private finance for half of its infra pipeline.
7. Government caught in bind
8. Strong arguments for alternatives adding to tensions in policy-making landscape

Next steps

Continue various strands of the mixed methods approach:

- Consult database of investors in UK infrastructure
- Interviews
- Scrutinise submissions to the Consultation
- Engage with results of Consultation once published
- Etc.

End



Source: NAO (2018)

Coase (1974):

“I think we should try to develop generalisations which would give us guidance as to how various activities should best organised and financed. But such generalisations are not likely to be helpful unless they are derived from studies of how such activities are actually carried out within different institutional frameworks. Such studies would enable us to discover which factors are important and which are not in determining the outcome and would lead to generalisations which have a solid case. They are also likely to serve another purpose, by showing us the richness of the social alternatives between which we can choose”.

Questions

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- How much of infrastructure is publicly financed? How much is privately financed? Which sectors are publicly/private financed? How have these trends changed? What are the projections for the future?
- How has the involvement of private finance in infrastructure changed since the early 1990s. What governance arrangements have been used?
- Why was PFI abandoned?
- How do market participants understand their future role in infrastructure financing in the UK?
- Who owns what and what are the implications of these patterns of ownership? Who are the agents involved in private financing and delivery of infrastructure? What power relations do these patterns give rise to in policy-making? How is power exercised? With what implications for (re)definitions of the policy landscape?
- Who is participating in the redesigning of infrastructure financing policy in the UK? Which cultures of expertise are being drawn upon? What does “market engagement” of the Infrastructure Project Authority look like? Who shapes the dialogue with the “market”? How are various elements of the state actively mobilising state resources and institutions to adapt infrastructure practices to changing circumstances and which interests are promoted (and at whose expense)?
- Who is advocating for a new UK Infrastructure Financing Institution?