

# UK Budget 2021: Fiscal head-aches and a new UK infrastructure bank

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The economic challenges faced by Chancellor Rishi Sunak in preparing his 2021 budget could not be more different to those that he faced when preparing his first budget, in 2020. His 2020 budget was effectively undermined within hours of him presenting it to Parliament by the rapid emergence of the coronavirus pandemic in the UK and the ongoing effects of the pandemic have clearly shaped much of his budget for 2021.

The government has repeatedly indicated that infrastructure will play a central role in the government's plan for growth, with the government apparently being committed to:

- transforming the UK's infrastructure to support its ambitions on tackling climate change;
- strengthening the economy across the United Kingdom; and
- helping the country to build back better from the pandemic.

However, with all of the challenges that the Chancellor now faces as a consequence of the coronavirus (and the various "lockdowns" that the UK public and UK businesses have had to endure), it is perhaps not surprising that today's budget included very few announcements regarding specific/new measures designed to support infrastructure development and investment.

Increasing unemployment, record-levels of public borrowing, falling tax receipts and an economy which shrunk by almost 10% last year are all factors which have contributed to the Chancellor's current fiscal head-ache. As a result, bold infrastructure spending plans were never likely to be included in this budget.

Although the Chancellor repeated his previous statements about the need for government to take advantage of low interest rates to invest in capital projects and drive future economic growth through investment in infrastructure, the most significant infrastructure-related announcement included in the Chancellor's budget speech concerned the creation of the new UK Infrastructure Bank ("UKIB"), something which was initially announced last November as part of the government's Spending Review. In his budget speech on 3 March, the Chancellor confirmed that UKIB will be based in Leeds.

UKIB is part of the government's plan to "build back better, fairer and greener", while at the same time being a good example of how its levelling-up ambitions are beginning to shape policy. The new bank will be developed in phases and will have an initial capital of £12 billion. It will also have the ability to issue £10 billion of guarantees.

The core objectives of UKIB are to:

- help to tackle climate change, particularly meeting the country's net zero emissions target by 2050; and
- support regional and local economic growth through better connectedness, opportunities for new jobs and higher levels of productivity.

It is expected to operate with a broad mandate to offer support across different sectors and to make case-by-case assessments of the merits of individual projects. Its primary focus will be on the economic infrastructure sectors covered in the National Infrastructure Strategy, including:

- clean energy;
- transport;
- digital;
- water; and
- waste.

It will also be able to lend to university projects that generate a return to support regional and local growth.

From the summer, UKIB will offer loans to local authorities at a rate of gilts + 60 bps for high value and strategic projects of at least £5 million.

UKIB will be owned by the government and will ultimately operate as a separate institutional unit, at arm's length and with a high degree of operational independence.

We already know that UKIB has been devised to focus on intervening where it can make the biggest impact, in much the same way that the UK Green Investment Bank was when originally set up. That means that it will be used to address shortfalls in the provision of private finance to make projects happen, where they might not without the additional funding. Acting as a "cornerstone investor", the government confirmed that it hopes that UKIB will leverage private sector finance into underdeveloped or challenging markets. UKIB plans to limit its exposure to investments that could already be fulfilled by the private sector. That is likely to be welcome news to the UK infrastructure and energy sectors, as they begin to focus on how to deliver the government's green revolution and how emerging technologies will be supported in practice.

UKIB will have a range of financing tools at its disposal, allowing it to invest at all parts of the capital structure, depending on the needs of each specific project. From the outset, it will be able to offer senior debt, equity, hybrid products (including mezzanine debt or other forms of credit enhancement) and/or guarantees (with UKIB initially taking over in relation to the provision of the guarantees previously provided under the existing UK Guarantees Scheme (UKGS)).

It will also provide advisory services and support to local authorities and other project sponsors on developing and financing projects, providing additional capacity and support to the work already undertaken by the National Infrastructure Commission (NIC) and the Infrastructure and Projects Authority (IPA).

For further information, please get in touch with Scott Tindall or your usual Hogan Lovells contact.

## Contacts



**Scott Tindall**  
Partner, London  
T +44 20 7296 5647  
[scott.tindall@hoganlovells.com](mailto:scott.tindall@hoganlovells.com)

**[www.hoganlovells.com](http://www.hoganlovells.com)**

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