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Article

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ABSTRACT

The challenges of infrastructure finance need to be considered in the context of long-term infrastructure planning. This article outlines the UK's new integrated approach to infrastructure planning to meet large investment needs against the backdrop of fiscal consolidation. The UK National Infrastructure Plan for the first time sets out a broad, integrated, cross-sectoral vision and plan for the substantial infrastructure investment required to underpin the UK's economic growth. This plan will act as a common reference point for the public and private sectors to achieve more effective infrastructure development. It will be updated on an annual basis.

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The UK National Infrastructure Plan 2010

1. Introduction

For the economy to flourish, people, goods and information must move freely. Businesses across all regions and industries need the right conditions to grow. Reliable infrastructure: energy, water, transport, digital communications and waste disposal networks and facilities, are essential to achieve this. Economic infrastructure drives competitiveness and supports economic growth by increasing private and public sector productivity, reducing business costs, diversifying means of production and creating jobs.¹

There is a clear correlation between investment in infrastructure and long-term growth. The OECD found that, between 1970 and 2005, investment in UK roads, rail and electricity generating capacity had a stronger positive effect on the level of GDP *per capita*, and on short-term growth, than other types of capital investment (Égert *et al.* 2009). Failing to make the right choices risks slower economic growth and ultimately puts the UK's international competitiveness in jeopardy.



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2. The challenge

Over the last 200 years, the UK has developed mature and extensive infrastructure networks. These are some of the largest and most intensely used in Europe. There has been a strong history of investment but the levels of investment have fluctuated markedly over time. The move of the water, energy and communications sectors to regulated private ownership during the 1980s provided the basis for renewal of major parts of those networks. For example, GBP 85bn have been invested in water infrastructure alone since privatisation (Water UK 2010). However, according to the World Economic Forum, in 2010 the UK is ranked just 33rd for the quality of its infrastructure and 12th for overall competitiveness, compared to 9th in 2005 (WEF 2010). The UK must get smarter with its infrastructure investment in both the private and public sectors to maintain its competitiveness internationally.

In 2010, we face an unprecedented series of challenges. Stretching carbon reduction targets and the need to ensure long-term energy security require a revolution in our energy generation mix. We need digital communication networks that transmit information at high speed to all parts of the UK. We need to maintain our transport, water and waste systems in the face of growing demand and the impact of climate change and of other threats and hazards. We need a clear analysis of the increasing interdependencies between networks and of the resulting opportunities for innovation. We need to maintain and grow the national intellectual capital for the UK to be a winner in the global knowledge economy.

All this must be delivered against an inherited legacy of overstretched UK public finances and with many countries embarking on programmes of a similar scale, competing for a finite pool of investment funds.

The immediate challenge is to rebuild the economy, creating the conditions for enterprise to flourish based on an expansion of the private sector. The infrastructure investment programme will help rebalance the economy across all regions and give industries the right conditions in which to grow, as well as itself providing a stimulus to short-term growth.

¹ OECD (2009) highlights that investment in physical infrastructure increases long-term economic output more than other kinds of physical investment.

3. The Plan

The National Infrastructure Plan 2010 sets out a broad vision of the infrastructure investment required to underpin the UK's growth (HM Treasury 2010a). And, just as the UK made bold choices in the past, we need to embrace the options opened up by new technology – for example, in the roll out of super fast broadband, in offshore wind arrays and in high-speed rail.

The role of a Government in this work is clear. It is to specify what infrastructure we need, identify the key barriers to achieving investment and mobilise the resources, both public and private, to make it happen.

The UK Government plans that over the next five years (2010/11–2014/15), some GBP 200bn will be invested in economic infrastructure – a step change from the past.² The majority of investment will be in transport and energy, with investment in the energy sector almost doubling between 2010/11 and 2014/2015. Looking forwards, trends all point towards a need for a step change in both the level and type of investment. There are a number of drivers that will have a long-term impact on the infrastructure need across all sectors, including ageing and obsolete assets, strong global competition, growing demand through increasing population and living standards, and growing interdependencies between infrastructure networks.

4. The Spending Review

The UK Government has adopted a new approach in the recent Spending Review (HM Treasury 2010b). For the first time, the Government has agreed capital allocations across the whole of the public sector over a four-year period, against the background of a coherent, long-term plan for overall (private and public) investment in the UK's infrastructure.

As part of the Spending Review process, the Government looked at a range of capital projects to identify those with the highest economic value and has assessed spending pressures from the previous government's contractual commitments. In light of this, the Spending Review has increased the capital envelope by GBP 2.3bn a year by 2014-15 relative to the Budget plan in order to ensure that capital projects of high long-term economic value are funded.

The Spending Review includes plans to:

- Invest in a low-carbon economy – including a commitment to provide a UK-wide Green Investment Bank, up to GBP 1bn for one of the first commercial-scale carbon capture and storage demonstration projects, and the provision of grants to increase the uptake of electric vehicles;
- Provide the best super fast broadband in Europe by 2015 – with the government providing GBP 530m of investment over the Spending Review period;
- Invest GBP 30bn in transport including
 - Funding for the construction of a new rail line across London (Crossrail)
 - Investment in a high-speed rail network
 - GBP 10bn for maintenance and investment in key road and local transport schemes across the country; and
 - GBP 14bn of funding to support Network Rail maintenance and investment.

² Infrastructure UK estimate based on aggregating individual planned investments that have been publicly declared in both the public and private sectors.

For the first time, the UK Government has agreed capital allocations across the public sector based on a multi-year plan for overall infrastructure investment.

- Ensure that the UK remains a world leader in science and research by investing in new facilities of national importance including GBP 220m in the UK Centre for Medical Research and Innovation and GBP 200m to support manufacturing and business development over the Spending Review period.

5. Enabling investment

To meet the growing requirements for spending on infrastructure, there is a need to use limited public funds wisely and unlock every possible source of private-sector investment.

There is also a clear need to attract private-sector investment and reduce the cost of capital for projects and programmes. This means creating the optimum environment for investment and ensuring that efficient and effective funding models are in place. All countries are operating in an intensely competitive global market for infrastructure funding and, therefore, need to take steps to remain competitive.

The plan includes actions that will encourage greater private-sector investment. This includes more efficient use of public funding in the sense of projects that give the most benefit (building on the Spending Review), improving private-sector investment models, actions to encourage new sources of private capital and actions to address regulatory barriers that stand in the way of greater private-sector investment. Improved regulation already brings in much vital investment but we need to ensure that the system is able to plan for the long-term challenges we face. The plan also sets out the intent to take an in-depth look at the potential for wider use of the regulatory asset base model in lowering the cost of capital.

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6. Improving delivery

Today, the UK is one of the most expensive countries in which to build infrastructure. For example, civil engineering works cost some sixty percent more than in Germany. To address this issue, we need to improve the UK planning system, bring down construction costs, improve the quality of data to inform decision taking, and initiate programmes to look at cross-sectoral independencies, resilience and engineering innovation.

Infrastructure UK are investigating how to reduce the cost of delivery of civil engineering works for major infrastructure projects under the chairmanship of Terry Hill (Chairman of Transport Markets, Arup). This investigation is being led by Infrastructure UK in collaboration with wider government, the Institution of Civil Engineers, and industry. Initial evidence indicates a range of reasons for higher costs of UK infrastructure. In particular, there are issues in the commissioning, early project formulation and pre-construction phases. In these early phases, policy-related factors, for example the UK planning and consents regime, and regulatory standards, impact on the whole infrastructure sector, including public and private-sector investments. The final report will be published by the end of 2010.

7. Next steps

The National Infrastructure Plan 2010 sets out in more detail the key decisions and actions needed by both Government and the private sector to develop world class 21st century infrastructure. Over the next year, Infrastructure UK will take forward the work programme in the plan. The next iteration of the plan will be published by the end of 2011.

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