

# Quaystone

June 2015

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Welcome to the June 2015 edition of Quaystone, the newsletter from the Construction and Engineering team at Burgess Salmon. This month we reflect on the ramifications for the construction industry due to the unexpected election of a majority Conservative government. We choose to focus on energy, transport and housing – three of the sectors likely to see significant activity over the next five years.

## Post-Election Special



### Energy

It remains to be seen whether a Conservative government, released from the compromises of coalition administration, will result in a clear and coherent energy strategy. It will have to grapple with a number of key priorities for the UK's energy needs. First and foremost it will need to establish a secure and reliable energy supply for the UK. At the same time it will need to decarbonise our energy sources while keeping costs down and fuel bills manageable. Balancing these conflicting priorities will not be easy, even with a workable parliamentary majority.

We can expect the UK's energy strategy to continue to include the promotion of new nuclear power stations and the encouragement of competition in renewable energy technologies as we have seen with the implementation of the CfD regime. The development of the UK's natural gas resources, including shale, will also continue to be part of the energy mix.

The strength of the performance of the SNP has made devolution a key issue for the new government, with the potential for devolution of powers over energy policy to Scotland.

#### New Nuclear

New build nuclear continues to be supported by the government, with Hinkley Point nuclear power station expressly mentioned in the Conservative manifesto. This was complemented by a strong pre-election commitment to significant nuclear expansion in general. Key problems to crack on the Hinkley project will be dealing with funding issues, EU procurement challenges and recent technical concerns which have been raised on analogous projects. In the meantime other new build nuclear projects are progressing under the radar, perhaps benefitting from the intense focus on Hinkley.

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## Offshore / Onshore Wind

Offshore wind is also supported, with the new Green Port at Hull being cited as part of a long term plan for delivering secure, affordable low-carbon energy. By contrast, onshore wind is to be halted. There will be no new public subsidy for onshore wind farms and there is to be a change in law so that the public has the final say on wind farm applications. That said, it is understood that the government will honour the existing RO mechanism, and the need to meet the UK's EU renewable energy targets - which includes a further 3.5GW of onshore wind power by 2020, in addition to the 9.5GW that is currently either operational or in construction.

## Shale Gas

The promotion of unconventional gas, and particularly the development of shale gas, will continue. Security of supply is a clear driver in this regard. UK production of natural gas in 2012 was the lowest since 1985, the UK having been a net importer of gas since 2004.

The focus of the debate on shale at a national level has been on how best to support and regulate the industry, rather than whether it should

go ahead at all. Locally however the development of shale is often hotly contested. It will be interesting to see which approach the government takes and how that compares to the proposed community veto for on shore wind. Given its slender majority the government will also need to tread carefully in order to keep the support of all of its backbench MPs whose constituents may be directly affected by shale gas proposals.

To address local concerns the Conservative manifesto proposed that the government would ensure that local communities share the proceeds through community benefit packages. For example a Sovereign Wealth Fund is to be created for the North of England, so that some of the money generated by shale gas exploitation is invested back in to the local area.

## Scotland

With the strength of the SNP's showing, devolution of powers to Scotland is a key item for the new government's agenda. Scotland continues to welcome the development of renewable energy technologies, including wind, marine and tidal. The SNP is likely to continue to seek joint control of the CfD and auction process.

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## Transport

Whilst it is probably fair to say that HS2 dominated the transport debate during the election campaign, the new government's transport strategy paves the way for extensive development across a range of transport infrastructure.

A majority government, with Patrick McLoughlin keeping his job as Transport Secretary, means there is no suggestion of any substantial departures from existing policies so the most likely change will be the rate of progress on proposed or existing schemes. This can only be good news for those parts of the industry involved in the delivery of transport infrastructure.

### Rail

The Conservative manifesto committed £38 billion to investment in the UK rail network by 2019. Fundamental aspects of the programme include:

- HS2 and HS3;
- electrification of existing track; and
- Crossrail and Crossrail 2.

HS2 and HS3 remain controversial with progress likely to test the slender Conservative majority to the limit. The government may have to rely on cross-party support to pass the HS2 Bill announced in the Queen's speech to realise the project, as the proposed route passes through the constituencies of a number of potentially rebellious Tory MPs.

As a counterpoint to the funding pledges, it is worth noting that in future, train operating companies will be subject to stricter price rise caps for commuter rail fares (linked to RPI) and tougher regimes for train delay compensation. In addition, substantial investment is also proposed to improve passenger service, by introducing more smart ticketing and improving mobile phone and Wi-Fi connections. Consequently, pure infrastructure development will not be the only arm of the sector in the race for investment.

In relation to procurement, the Conservatives have not indicated (as other political parties did in the run-up to the election) that the private



sector monopoly over railway franchises is under threat. Therefore it is unlikely that the existing model will change significantly.

### Road

There are expected to be substantial upgrades to existing road networks, for which the government has dedicated £5.2 billion of investment in the next 5 years. This is intended to provide 1,300 extra lane miles and to tackle what the government considers to be "the most notorious and longstanding problems".

A key focal point will be the North of England (particularly the M1 and M6), in line with the government's plans to develop a 'Northern Hub'. The South West also looks set to benefit from the funding, with major investment promised for the M5, A358, A30 and A303, including tunnelling around Stonehenge.

In terms of smaller scale development, the government has promised funding to fix around 18 million potholes nationwide between 2015 and 2021 and has also committed to greater investment in creating new cycle paths. This should create opportunities for a range of providers, from small-scale contractors to large-scale infrastructure developers.

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## Aviation

The strategy for airport development over the next 5 years is unclear. Although the Conservative manifesto alluded to potential airport expansion, aviation is not dealt with in detail. There is likely to be continued pressure from the industry to deliver increased runway capacity to

enable the UK to compete with other growing economies and to meet the increasing demand on existing capacity. The question mark over aviation is likely to be clarified in the forthcoming Davies report by the Airports Commission (expected in the next few weeks), to be followed by a government decision later in the summer.

## Housing and Commercial Development

Housing policy represented one of the starkest areas of ideological difference between the major parties in the run up to the election. While the Tories promised to give housing association tenants a right to buy, Labour was proposing to cap rent increases and impose a mansion tax. With the Conservative victory the industry will wait to see how the right to buy proposals set out in the Queen's speech manifest themselves in law.

The pledge to extend right to buy to housing association tenants is coupled with a proposal for part of the proceeds to be invested in a so called Brownfield Regeneration Fund to encourage residential development on brownfield sites. The fundability of the proposals has been questioned as has its likely impact, positive or negative, on the country's current housing shortage. Whichever argument prevails there are undoubtedly significant legal hurdles to overcome if the plans are to be realised.

The legal status of housing associations is complex. Generally speaking they are considered to be not-for-profit, private sector organisations albeit with some public sector features. So, for example, housing associations are generally independent of government control and their borrowing to finance the development of new homes (£60billion at current reckoning) is not counted as part of the national debt. Conversely, as many housing associations fulfil roles that would otherwise be provided by local authorities they have been held to be public sector bodies for the purpose of the public procurement regulations. In addition, many housing associations have charitable status which prevents them from disposing of assets at less than market value. The latter would make it very difficult for them to sell houses to tenants at a discount, as envisaged by the new right to buy proposals.

Many housing associations have indicated their intention to fight any proposals to sell off their housing stock



which, given the complexities outlined above, is likely to result in lengthy and complex litigation. The new government could simply legislate the problem away by altering the legal status of housing associations but this would take time and be politically toxic. It would also mean that the national finances would have to contend with an additional £60billion of debt. None of this will be easy, even for a government with a clear majority.

Elsewhere in the private sector the election result was immediately followed by a surge in the share prices of major house builders. Whether this was directly due to the Conservative win or reflects the markets' preference for a majority government (or any colour) remains to be seen. For the moment though stability helps investor confidence and is likely to encourage the private sector to press ahead with investment projects which may have been on hold pending a potential change in government. However, this window of calm is likely to be short lived as another key Tory pledge, to hold a referendum on Britain's membership of the EU, has already caused concern in the business community. That vote may now come as early as 2016.

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