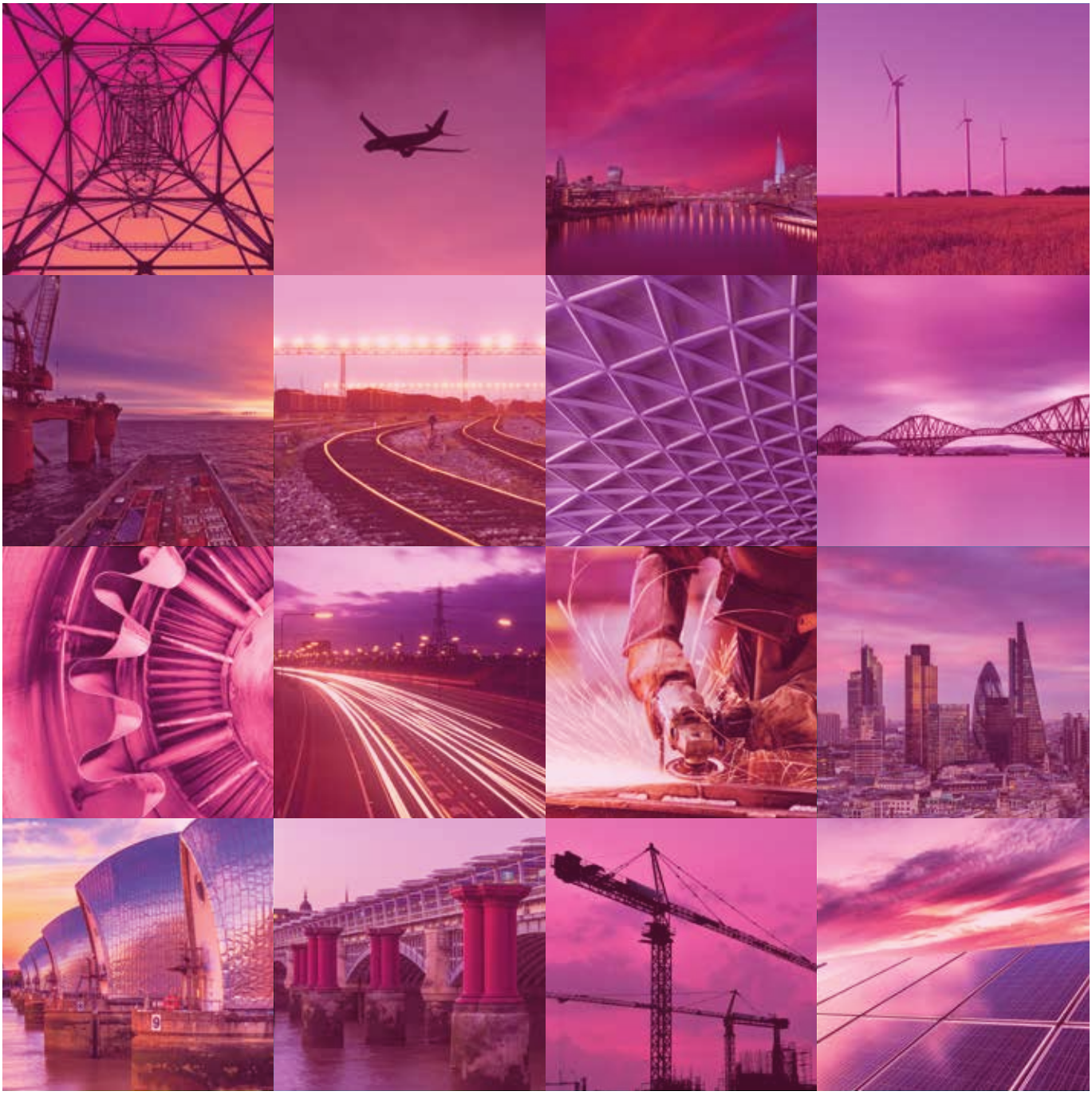
Burges Salmon



Perspectives on infrastructure

How can we improve the delivery of UK infrastructure?

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Foreword

William Gard
Head of Infrastructure
Burges Salmon

The phrase, "May you live in interesting times" is often thought of as a curse. However, it has also referred to periods of history when great achievements and advances were made. At Burges Salmon, our sense is that we are living in interesting times in the infrastructure sector.

Rather than relying purely on our own market intelligence and instincts, we commissioned *Perspectives on Infrastructure* to get a genuine snapshot of the sector and its challenges at this point in time. We drew on the opinions of over 100 industry experts, including interviewing a dozen of them face-to-face.

The results make for fascinating reading. Opinions vary widely on: the effects of Brexit, technological advances, changing political and regulatory commitments, the need to marry good projects with the right finance, skills and leadership issues, devolution and engagement challenges. Yet, at the heart of the findings sits a simple fact. The UK needs new infrastructure to retain its economic powerhouse status.

Despite the difference in opinions, our research shows that all counterparties in the infrastructure industry understand and support the need to deliver that vision. How we go about ironing out the inefficiencies identified in this report will be something we continue to assist with over the coming months and years.

We are keen to hear your thoughts on these topics. Our belief is that by having a dialogue, these interesting times turn into interesting opportunities. That's more cure than curse.

Summary

Andy Walker
Editor, Infrastructure Intelligence

Is the UK's infrastructure working? It's a question that is well worth asking given the importance that our politicians place on the sector for the long-term health of the UK economy. This is why Burges Salmon and Infrastructure Intelligence magazine have partnered to produce a report. We want to create an informed debate on the challenges of delivering UK infrastructure projects, as part of the country's future industrial strategy.

As part of the report, we conducted an online survey with more than 100 decision makers working in the infrastructure industry, who were able to express their views on a range of issues relating to infrastructure delivery. We also spoke face-to-face with a number of key leaders in the sector and asked them to share their experience, knowledge and views on the delivery of UK infrastructure projects.

The responses to our online survey were very interesting, they reveal an industry that although vital to securing the long-term prosperity of the nation's health and wealth, is one that could and should work better than it currently does in a number of areas. Our survey results and the face-to-face interviews we conducted with key industry figures both revealed significant concerns around funding, the certainty of government policy on infrastructure and the regulatory regime that underpins projects and their delivery.

Whilst the survey showed that the industry largely agrees that the National Infrastructure Plan is "about right" in balancing short and long-term infrastructure priorities, there are a number of issues that clearly divide those working in the industry. In particular, the current state of collaboration in the supply chain, as well as the current level of consideration for the long-term impacts on local communities.

The majority of respondents to our survey (74%) think that national government should have the main responsibility for driving infrastructure delivery in the UK. This is interesting in the context of increasing devolution and decentralisation, with industry leaders sending a clear message that infrastructure delivery should still be led nationally.

That's not to say that devolution is not welcome, 21% thought that local and regional government should be driving infrastructure delivery and 71% said that city/region deals will help the delivery of UK projects. The industry leaders we spoke to were in the main enthusiastic about devolution, but there was a feeling expressed that the new political structures needed to deliver results on the ground and that was yet to be seen.

Too short, too long?

Our survey revealed an interesting split of views about the National Infrastructure Plan, which was launched by the government in 2010 outlining its vision for the future of UK economic infrastructure. Although 55% of respondents thought it was "about right," significantly more than 31% of respondents thought that the plan was too short term. This reflects the views of a number of industry leaders who thought that the government needed to take a much longer-term and holistic view of the nation's infrastructure needs.

In terms of improving the delivery of infrastructure projects, industry leaders were clear that procurement (25%), planning (24%) and funding (20%) were the three main areas that could >

The scale of the UK infrastructure delivery challenge

£483 billion
The UK's infrastructure project pipeline until 2021

£100 billion
Existing government infrastructure commitments to 2021

60%
increase in central government infrastructure investment between 2016 and 2021

60%
Estimate of infrastructure funding to come from the private sector

30 year
investment funds for devolved mayors, to prioritise local infrastructure projects

What does the industry think?

Of 100+ infrastructure decision makers surveyed by Burges Salmon and Infrastructure Intelligence

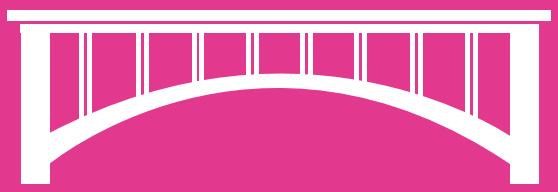
65% agree UK infrastructure projects are viable long term investments for institutional investors.

46% believe government policy commitment is the biggest challenge to securing investment.

74% think national government should have responsibility for driving infrastructure delivery in the UK.

Yet 71% think city/region deals will help the delivery of infrastructure projects.

55% agree the timeframe for the National Infrastructure Delivery Plan **is about right**



45% agreed supply chains effectively collaborate to deliver projects more quickly.

But 42% disagree.

50% **do not agree** that infrastructure projects properly consider the long term social and economic benefits for local communities.

#viewsoninfra

"The majority of respondents to our survey think that the national government should have the main responsibility for driving infrastructure delivery in the UK."

be improved the most. Given the links between these three areas it is not surprising that they were given top priority for improvement. It's clear from speaking to key players in the industry that there are some real challenges which need to be overcome in all of these areas.

One of the key issues raised in the surveys and interviews was collaboration, and the extent to which it is used to deliver projects more quickly. 45% either strongly agreed or agreed that UK infrastructure supply chains effectively collaborate to deliver projects quicker. However, 42% of respondents said that the industry wasn't collaborating effectively, showing an obvious disconnect in the way the industry views the current level of collaboration. Clearly there needs to be more collaboration on collaboration itself!

Given the importance of infrastructure to the long-term health and wealth of the nation, the response to our question about whether infrastructure projects properly consider the long-term social and economic benefits in local communities was a matter for concern. Respondents were evenly split with 45% saying long-term benefits were being considered but 50% said that they were not. Winning public support for key infrastructure is crucial to those projects happening in the first place, so ensuring that they benefit local people has to be a priority for the industry.

Follow the lady

Funding was a recurring feature of our interviews with industry figures and the survey, highlighting that infrastructure was an attractive place for investment. 65% either agreed or strongly agreed that UK infrastructure projects are seen as viable long-term investments for institutional investors. This backs up the willingness of institutional investors to support the infrastructure sector, provided that there are viable projects on the table. Government has a key role to play here in ensuring a healthy project pipeline.

The biggest challenge to securing investment in UK infrastructure projects was widely seen as government policy (46%) with 40% of respondents saying that concerns around availability of funding and uncertainty of returns was holding investment back. This was also borne out by our interviews, where certainty and clear government policy for infrastructure was voiced as a key issue in creating an attractive market for investors.

"Could do better"

Underlining a general feeling that the UK needs to do much better in the delivery of infrastructure projects, only 17% said that UK's track record of delivery was strong or excellent.

The availability of skills was also raised by several of the people we spoke to as a key concern in the delivery of infrastructure. The industry needs to get much better at attracting a more diverse workforce, because the infrastructure sector and the skills needed to deliver projects are changing, especially in a digital age.

It is clear that the delivery of quality infrastructure will remain crucial to the UK in the years ahead. While the industry has a number of issues to address, and it must work to overcome these, the role of government will continue to be critical. It must ensure that a healthy pipeline of projects is available, that can attract the investment needed to deliver the infrastructure the country needs to prosper.

"The key issue is whether the government has the right way of delivering the mix of public and private sector money into infrastructure."

Darryl Murphy
Head of Infrastructure Debt, Aviva

In recent years Aviva's infrastructure debt team has completed transactions across a range of sectors, including renewable energy, social infrastructure, transportation and utilities. Aviva's newly hired head of infrastructure debt, Darryl Murphy is an expert in the infrastructure investment field.

A key issue for infrastructure, Murphy says, relates to funding and who's going to pay for infrastructure investment rather than financing. "At the moment you have a market that is very diversified," he says. A lot of infrastructure (especially in transportation) is delivered directly by government and paid for by the taxpayer. If you turn to energy it's funded by the consumer, developed by the private sector and there's much more private finance. However, is this mix right? "I think sometimes you have the wrong capital for the right projects," says Murphy.

Murphy argues that private finance is there to invest, but the government needs to consider where it is best utilised. "Whether you're talking about equity or debt investment, there is a lot of capital chasing opportunities, but the key issue is whether the government has the right way of delivering the mix of public and private sector money into infrastructure," he says. "The government bizarrely has a situation where it wants to deliver certain very challenging projects using private sector capital (such as nuclear), yet on projects that could be more easily financed on a private basis, like roads, it uses public money. This has been a largely political decision as the government is still reluctant to go down the PPP route," Murphy says, "but it seems that sentiment is changing."

Despite it becoming a less popular method of procurement in recent years, Murphy believes that the PPP model should still be an important part of infrastructure delivery. "PPP is recognised globally as an important tool in the toolkit, but government still seems reluctant to use it because of its previous reputation," he says.

"If we had never had PPP in the UK in the past and you landed in this country today and looked at the market, with the fiscal position of government it would be the obvious solution. If you treat it as a delivery tool and not a political mantra PPP/PFI is perfectly viable. I am confident though, by the end of the next government PPP will become again a mainstream form of procurement," Murphy predicts.

So what does he think are the opportunities for investment and where are they? "Most of the market in the UK is looking at the energy sector because it is closest to a market where private sector developers have tangible projects that they want to deliver," says Murphy. Government still needs to play a role though. "Take Swansea Tidal," Murphy says. "It's a fantastic project but it needs government subsidy to be delivered. That's the kind of project that we would like to get involved in but to unlock it you need government support."

Murphy is concerned about the volume of opportunities available in the UK. "As things stand today, we won't meet the aspirations of investors in the UK, and we will have to look elsewhere. We have the capital and we'd love to do lots more in the UK but we don't always have the opportunity to do so. There's a general market feeling that there aren't enough projects on the ground."

"The number of substantial infrastructure projects may have an impact on businesses like ours that are not in the top tier of projects."

Robert Sinclair
Chief Executive,
Bristol Airport

Bristol Airport is the ninth largest airport in the UK and the third largest regional airport in England. Owned by Ontario Teachers' Pension Plan, the airport sits within the firm's infrastructure portfolio. As a global investor, Ontario Teachers sees infrastructure as a key asset class and it likes the UK because of its stable regulatory and tax environment.

"Although many of the functions at the airport are outsourced to business partners," says Bristol Airport chief executive Robert Sinclair, "we share the concerns common in the infrastructure sector that there is a skills shortage out there. Our main contractors struggle to get good people in the construction labour market and some key trades are in short supply. Brexit may compound the problem even further with access to skilled labour," says Sinclair.

The number of substantial infrastructure projects planned over the next ten years could also have an effect on the airport's development plans, says Sinclair. "These projects will have an impact on assets like ours that are not in that top tier of projects," he says. "For example, they tend to consume skills and not just in the construction and infrastructure area but also other skills as well. Roles such as security guards, bus drivers, steel welders, concrete pourers and all sorts of people. That feeds through into shortage of people but also into costs and we are directly exposed to that especially in construction where we've seen costs running at 5%+," said Sinclair.

Technology is also important to a facility like Bristol Airport and the latest security technology has enabled the business to increase passenger throughput. Aviation technology is also leading to larger, quieter planes with a reduced impact on the environment. This is driving the growth of the airport and has implications for its infrastructure development.

"Increasing passenger numbers per plane movement is good for the environment because it means bigger planes with more people on a single plane. It's good for noise as well. On the whole it is better to have an airport that is using planes of a bigger size because you get more efficiencies in how your infrastructure is utilised," says Sinclair.

Underpinning everything the airport does is the issue of sustainability. "It's very important to us and informs everything that we do here," says Sinclair. "Airports can be seen as bad neighbours so we are incredibly focused on doing what we can to limit our carbon footprint. We have a commitment to achieve carbon neutrality by 2030 and a vast range of initiatives with a number of partners including the airlines," he says.

Public transport is also key to the airport's success and there are plans to further develop airport bus and coach services to facilitate better public access to the airport. As the airport is not connected to a motorway or a rail link there is real potential for greater infrastructure development and integrated transport links to meet the needs of its growing number of customers, who can use a local airport instead of travelling further afield.

"Our client centric approach drives everything we do. We believe in delivering a more sustainable approach that delivers outcomes for all of society."

Rachel White
European Managing Director, CH2M

CH2M is involved in some of Europe's landmark projects in the transportation, environment, nuclear, water and advanced technology sectors. Access to skills is a particular challenge for the business and the wider industry, says CH2M European managing director Rachel White.

"The skills agenda is a critical issue," says White. "The types of skills that the infrastructure and engineering industry needs are changing. Major infrastructure has become more technology-based, more complex and more integrated into the communities it sits within. Local communities want to be much more engaged right from the very start of a major project, so it's important to have an integrated programme at every level, from schools and local parishes, to major consultations," she says.

Delivering the infrastructure of tomorrow will also require the industry to embrace a broader range of skills, says White. "The industry has a high number of people retiring in the coming years, which will lead to a loss of traditionally important skills. However, the industry should view this as an opportunity rather than a threat."

"Multi-disciplinary teams are the future of engineering and construction," claims White. "That means we need app developers, psychologists, and people with stakeholder management skills integrated with the more traditional engineering and construction skills. We want to demonstrate to students, particularly girls and those from minority groups, that our sector is modern, interesting, and can give them so many options, and that is why we're working so closely with organisations such as the Social Mobility Foundation," says White.

White also highlights funding is an issue. "There is a big funding challenge at the moment," she says. "A lot of our big infrastructure programmes in the UK have had a degree of European funding, so it's going to be interesting to see whether the European Investment Bank will continue to put in the same level of funding – last year it was £5.5bn into UK projects – as it has previously. Understanding how that funding package will look in future will be crucial."

White also identifies technology and how the industry views it as crucial to the future of infrastructure. "Technology is already transforming the way that infrastructure is designed, used and operated," she says. "But there is a disconnect between some of the technology advancements we can see and their application on the ground."

However this is slowly changing, White claims. "We are starting to see technology being used in a more effective way on some of our major programmes – for example with Team2100, the flood alleviation programme for the Environment Agency in the Thames Estuary. We are using drones to do some of the asset investigation work. That would have been unthinkable a few years ago. I'm personally thrilled that TEAM2100 was recently honoured with the Project Excellence Award in Innovation and Esri UK's Customer Success Award for its innovative contribution to managing flood and coastal risk and building local resilience to flooding."

Thinking about what the next ten years holds for the industry, White is clear about what will keep CH2M being successful. "It is the same as it always has been for us. We are client centric, outcomes-focused and want to create a meaningful impact on society. Skills and technology are an important element of that, but our long-term vision is about making a difference to the people and places in which we work."

"Having the skills to meet the need is a challenge."

Darren James
Managing Director, Infrastructure, Costain

As managing director of Costain's £1.3bn infrastructure division, Darren James is responsible for providing services to customers in the UK's energy, water and transportation sectors. James says that having a steady pipeline of projects is crucial to their business.

"For us to have the right skills and invest in the right technology, we need a visible pipeline of opportunities," he says. "The government has been consistently supporting the need for economic infrastructure and the National Infrastructure Plan is an example of long-term commitment. As long as we continue to have that visible pipeline of opportunities, organisations like Costain are not afraid of the challenges we have in terms of people and technology," says James.

So how does James view the skills challenge? "I'm glad you've used the word challenge because as far as Costain is concerned having the skills to meet the need is a challenge, but a lot of people try to call it a crisis – and it's far from being a crisis," James says. "We would prefer to focus on the things you can do to meet the challenge – like investing in skills academies, providing apprenticeship routes, continuing to invest in graduate intake and attracting people from more diverse backgrounds. It's a challenge that everyone should embrace and make sure it doesn't turn into a crisis," he says.

Another opportunity facing Costain, like many businesses in the sector, is technology. "The role of technology is fundamentally changing the way that we do business," says James. More technology solutions, particularly in transport, are inevitable. Last year we acquired a technology business to give us the capability to meet customer needs, so technology is now playing a very important part in evolving the service we offer," he says.

James also highlights sustainability as an area that the industry has a moral responsibility to address. "Having a sustainable approach to infrastructure is fundamental because we have a responsibility to not only maintain the assets that we have been provided with, but also to make sure that they are in at least the same state if not a better state when we hand it on to the next generation," he says.

James also highlights the importance of winning public support for infrastructure and the need for good community engagement. "We have a large portfolio of early contractor involvement schemes and are routinely involved in the planning and public inquiry process," he says. "I'm proud of the way that we engage with the communities and stakeholders affected by the project both during the development and delivery of a scheme. We view community engagement as a positive attribute to a scheme. If all firms when they deliver a scheme embraced the local community, they can leave a very positive legacy locally as well as delivering a very important piece of infrastructure," says James.

"In the smart city of the future, customers will become producers as well as consumers."

Wilfrid Petrie
CEO, ENGIE – UK & Ireland

Leading French energy and services group ENGIE turns over €66bn in 70 countries and employs 20,000 people in the UK where it has a £3bn business. Wilfrid Petrie, ENGIE's UK & Ireland CEO, is keen to stress the business's broad range of expertise, which includes being a leading outsourcing company supplying offices and facilities management for hospitals and local government and the acquisition of an £800m regeneration business.

Petrie says that the people challenge for ENGIE is dealing with a market where partnering is ever more common. "The challenge is inventing the new business models and moving to something more partnerships orientated," he says. "We have the financial, technical and design capabilities but with increasing collaboration with external partners, including investors and local government, we need access to the best people with a range of skills," says Petrie.

A consistent government policy for the energy sector is also critical, says Petrie. "The issue today is consistency of policy," he says. "I don't think the regulatory regime we have is used to its full potential. We now have the Contract for Difference (CFD) but we need to make sure we have the right incentive mechanisms in place, enabling us to have a long-term view of how stable these measures are," says Petrie.

Petrie thinks that the future of this sector will be local and he thinks that more should be done to encourage local energy production. "We need to incentivise local energy production. The government should favour renewable technologies and low carbon production," Petrie says.

"The big unknown today is how you give price signals to the decentralised production and storage of energy to make it financially viable," he says. "We need to encourage the development of local technologies by giving them access to the right price signals. Local production should be favoured and financially incentivised," says Petrie.

Petrie sees an integrated future for the energy sector of more low carbon production and a higher percentage of renewables backed up by a lot of new digital technologies. "We believe in decentralisation but also integration," he says. "The future will be more integrated. Take PV on rooftops. If you just build that without any other benefits then it's not financially viable. If you combine the PV with other improvements and integrate it in the supply strategy of the business then you can make something viable with a complete package of solutions," he says.

In the smart city of the future, customers will become producers as well as consumers. Petrie says that a total regeneration approach to places is crucial and that the government needs to encourage this. "Government can help by changing procurement policies so they are more end-result and solution-led and by having a set of regulations so you can facilitate local solutions with more devolution of power to local government," says Petrie. "Decentralised energy at its heart is localised energy and it works better when you have a local champion."

“We need infrastructure to catch up with the pace of demand and also look at more technology to bring in quicker, faster projects and deliver them on budget.”

Steve Montgomery
Managing Director,
First Rail, FirstGroup

Steve Montgomery’s experience in the railway industry spans almost 30 years. As managing director of FirstGroup’s rail division, he deals with the many challenges and opportunities involved in delivering a modern rail service in a rapidly changing sector.

“Because the rail industry continues to grow at the level it does, the challenge for us is meeting customer needs and allowing the infrastructure to expand at a reasonably quick pace that can meet those growth levels,” says Montgomery. “We need infrastructure to catch up with the pace of demand and also look at more technology to bring in quicker, faster projects and deliver them on budget.”

Montgomery says that the industry’s current confidence levels for delivering projects on budget is quite low, and that First Rail needs to keep working with the providers of infrastructure projects to increase that confidence. “As a train operating company we need to continue to work closely with Network Rail and other infrastructure providers to plan with them to ensure that the process is as fast as it can be,” he says.

“When we embark on major projects we need to work well in advance and do the planning, so that there are no surprises and we don’t cause unnecessary disruption to customers. We need to work together to ensure that we deliver together, because the benefits are there for all to see when we do this well,” says Montgomery.

With the rail industry having rapidly expanded over the past 20 years and being predicted to expand even further over the next 20, it’s clear that this is a sector that needs to gear up for a rapid increase in its workload. “The next 20 years will see an almost doubling of the number of people who travel by rail and we need to make sure that we get projects aligned to that future forecast.”

“As an industry we also need to explain the vision better to customers so that they understand why we do what we do and what the outcomes are going to be in the long term,” says Montgomery. “Sometimes we throw big numbers around but we need to bring it down to what does it mean to the ordinary travelling customer. We need to explain what we are trying to achieve for the long term – and that’s an industry and a transport system that keeps the country moving,” he says.

Like other infrastructure sectors, skills are an important issue for the rail industry. “We need to bring new skills into the industry and it’s a different skill set that we are starting to see, particularly in the digital field,” Montgomery says. “How we build things now compared with 20 years ago is very different and we want to move from the old to the new and get the consistent delivery that we need,” he says.

“There is a huge future for the rail industry and it’s an exciting time as we move a Victorian railway into a modern world. We’ve got to entice people in with that vision and show people that this is an industry where you can see a varied career over many years,” says Montgomery.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"It is one of the most woefully inefficient industries on the planet. The productivity of the industry has remained flat for the last 20 years."

Richard Threlfall
UK Head, Infrastructure, Building and Construction, KPMG

As KPMG's UK sector head for infrastructure, building and construction, Richard Threlfall is an industry expert in his field with over 20 years' experience in the financing and structuring of infrastructure projects. His is a voice worth listening to and he's one of the best connected people in the industry.

"The UK is in quite an exciting place in terms of its infrastructure development," says Threlfall. "There is for the first time in many generations a really strong pipeline of work in nearly all sectors, but the challenges are that it is one of the most woefully inefficient industries on the planet. The productivity of the industry has remained flat for the last 20 years," he says.

According to Threlfall, the basic structure of the industry doesn't work. "The contracting end of the industry doesn't get what it wants because it makes pitiful margins, which gives it no scope to invest, and on a fairly regular basis businesses go bankrupt or close to the wall. Clients are not happy either because of the unpredictability of the cost, time and quality of construction, and in the long run they are paying too much because of the low productivity," he says. "Notwithstanding quite a lot of progress in the last few years, we are still not really thinking long term about our infrastructure development. It is still a bit stop-start and some projects remain heavily politicised," Threlfall says.

Given that infrastructure is in effect investing in the long-term future of the competitiveness and social cohesion of the country, by definition we need consistency of approach beyond the life of any one parliament. "We are spending money that needs to pay back over 30, 40, 50 or even 100 years," says Threlfall. "Although we are starting to make a start on long-term planning with the National Infrastructure Commission, there is still a long way to go," he says.

So what can the sector do to try and change things? "I think that 90% of the ownership of the problem lies with the industry," says Threlfall. "The industry needs to get its own house in order and then make a proposition to government that it can't refuse. We need a client-led approach to reform this industry. It's got to come from the clients who are repeat buyers of infrastructure, both private utilities and government, and they will benefit in the long run through lower costs if they drive innovation and collaboration."

"The Infrastructure Client Group is doing some good work here through Project 13, which is about creating best practice in long-term procurement of infrastructure programmes that lead to clients buying on the basis of whole life cost, buying a capability and buying an outcome. When you have enough major buyers saying 'we are going to act in this way' that gives me confidence that we will see real change," he says.

So how do we get politicians to think long term? "We need to focus on parliament rather than the government. The setting up of an infrastructure select committee would create a forum for much better informed debate, based on reports from the National Infrastructure Commission. That would raise the level of understanding of politicians across all parties, and should lead to discussion on the floor of the House that is more grounded in facts and less politicised," says Threlfall.

"For infrastructure investments to be financed by institutions there needs to be an understanding that successive governments will honour the frameworks put in place at the time of financing."

Tim Huband
Head of
Project Finance,
Fixed Income,
M&G Investments

M&G Investments has extensive experience in infrastructure investing, and has built a substantial portfolio over a number of decades. It currently manages over £45bn* of infrastructure debt investments in both public and private markets. Tim Huband is head of project finance at M&G Investments within the infrastructure team.

"There are a number of high profile government procurements in the UK, particularly in the transportation and energy sectors, although the overall flow of projects has slowed due to previous governments having already delivered a lot of social infrastructure. As a result there is not as much flow of hospitals, schools and projects that are relatively easy for institutions and banks to finance," he says. In place of social infrastructure, there has been a greater focus on renewable energy projects, using the various subsidy regimes in force, and M&G is a major financier of solar power parks in the UK. M&G has also invested in a number of more innovative, structured financings where there is less competition from other debt providers.

Huband thinks that the government is becoming a more informed procurer of projects, and taking a more thoughtful approach in looking at the best ways of financing projects.

"The decisions governments take regarding infrastructure investments affect the long term beyond the immediate election cycles. For such infrastructure investments to be financed by institutions there needs to be an understanding that successive governments will honour the frameworks put in place at the time of financing. To obtain the low cost long-term financing that governments seek from the private sector, there needs to be comfort in the stability of the revenues that institutions receive to service the debt. This needs consistency in the approach of governments to infrastructure financing whatever their political hue."

So what are the big challenges going forward to make it easier to invest? "The long-term stable revenues which are sought by our insurance and pension fund clients need a stable long-term regulatory approach. When changes are made – and there will inevitably be changes over the life of such long-term infrastructure assets – governments need to ensure that institutional investors and other financiers are treated fairly. They should not be unfairly penalised or rewarded by political changes that were not envisaged when the financing was arranged. Government's hands are tied, because of the state of public sector finances. This requires a wise and imaginative allocation of public sector financial resource to encourage private institutional debt investment. There are dedicated infrastructure people within the Treasury, which works well," he says. Huband also welcomes the establishment of the National Infrastructure Commission, designed to take a longer-term view of the country's infrastructure needs.

So what about Brexit? "Clearly, this involves a lot of government time and energy and like any major political change there is the danger of course that decisions on important infrastructure investments might be delayed as a result." Given its role in driving economic growth, infrastructure is likely to be a key priority for any government and recent transactions show the continuing attractiveness of the UK's infrastructure assets to international as well as domestic investors.

*As at 31 December 2016

"It's about creating the right framework to attract private investment."

Adam Coxhead
Director, Energy and Infrastructure Finance, National Australia Bank

National Australia Bank has had a very active infrastructure financing business in the UK for around 20 years. The bank's focus is energy and utilities, core infrastructure and clean energy.

Adam Coxhead, director, specialised finance at National Australia Bank says the infrastructure investment market is very healthy. "Liquidity both in equity and debt markets just continues to grow," he says. "You are seeing more and more insurance and pension fund money looking to invest in infrastructure, and along with sovereign wealth funds increasing their allocations, availability of capital is not a problem. It's about providing mechanisms to attract those capital providers to invest, whilst delivering infrastructure that represents good value for taxpayers and infrastructure users," he says.

Coxhead thinks that private capital has a key role to play in delivering UK infrastructure. "The government balance sheet will continue to be constrained and they will have to find ways of funding the projects that they want to see built," he says. "The mega projects require a huge amount of capital. If you take HS2, Heathrow expansion, Crossrail 2 and Hinkley, that's more than £100bn investment on those four projects alone. So if the government wants to see significant infrastructure assets like this built they are going to have to provide investment models that will attract private capital," he says.

So, how should government get the funds to develop the infrastructure the UK needs? "One of the ways they can do this is to look at Australia and the example of recycling capital. This is where value in existing infrastructure assets is realised and the proceeds recycled into new infrastructure investment. There, the federal government incentivised state governments to monetise state owned infrastructure assets by offering to contribute a further 15% on top of the amount raised, if the state governments invest those proceeds into new infrastructure," Coxhead explains.

Looking at the larger, major energy infrastructure projects, Coxhead says that things need to move more quickly. "Hinkley has been a very long process, so it is good that a decision has been made. Considering tidal generation as an example, the government conducted a review that concluded that it was worthwhile developing the sector, but it has taken a long time to agree the structure and strike price of the CFD (Contract for Difference) for the pathfinder project. Things need to be moving along more quickly because the vision for the sector is ambitious, with more larger projects like this needed to make the sector truly relevant to the UK's energy mix. Offshore wind is an example of a sector that has been well supported through to a place where it is becoming truly sustainable from an economic standpoint."

According to Coxhead, stable government policy is key to the delivery of quality infrastructure. "A stable, supportive government policy framework for the development of infrastructure will ultimately attract long-term capital. That's what is needed. A level of government investment will also be required, but it's also about creating the right frameworks to attract private investment," he says.

"In the financing market, institutional investors that traditionally have provided equity capital are now providing senior debt in the capital structure. Financing models are evolving. You're seeing more hybrid financing structures with banks providing senior debt tranches that best suit their funding profile and institutional investors providing long-term debt capital alongside them, or banks providing construction guarantees to institutional investors who are funding projects long term," says Coxhead.

“The current debate for us as funders in the UK is ‘where is the pipeline of projects’?”

Sue Milton
Senior Director, Energy, Structured Finance, RBS

RBS’s Structured Finance team has been advising clients since the early 1990s and works with many of the main private equity and corporate investors in the UK. Sue Milton, director, project finance, structured finance at RBS, is well placed to offer a view on the green energy market. “There is a lot of liquidity in the sector as infrastructure funds have come into the renewables space to get more yield,” says Milton. “The general theme is that from the investors’ perspective the government needs to demonstrate a stable and transparent long-term view in terms of renewables. Investor confidence has been a little bit shaken as a result of a lack of consistency in recent years,” she says.

There is also a concern across Europe about the balance between reducing CO2 emissions while at the same time not putting too much cost on consumers. “Affordability is also now much higher up the political agenda in the UK,” she says.

Project availability is also an issue. “I think there is a lot of money around, both in terms of debt and equity, with infrastructure investors wanting to put money into the sector. But the question remains how strong and visible is the pipeline of renewable opportunities? In the current CFD (Contract for Difference) auction, the market view is that offshore wind will be one of the technology winners. These are major infrastructure projects that will absorb a significant portion of the renewables CFD pot. The assets require investors who have deep pockets and who are prepared to take a long-term view and commitment to the sector. Significant investment is required in advance of being able to participate in the auction and there is no upfront certainty that investors will be successful,” says Milton.

With onshore wind and solar no longer being eligible for renewable support, there is now more uncertainty about the number of projects that can be developed without the subsidies which were historically available. Investors have been lobbying for the government to take a longer-term and more holistic view on regulation, to support the sector and inward investment.

“The debate for us as a country is the balance between affordability and our commitment to climate change. Do we want to become like Germany and effectively have over 50%+ of our energy coming from renewables? Are we concerned about the fact that renewables are a cost to the end user? It’s widely felt in the industry that we need more education around green energy to make people aware of the benefits, which in turn would help to build public and political support,” says Milton.

"Devolved powers are having an effect such that, depending on where you are developing across the UK, it's a different regulatory environment that you have to deal with."

Mark Allan
Chief Executive,
St. Modwen

St. Modwen, the UK's leading regeneration specialist, creates new sustainable communities that enhance the environment as well as the local and wider economy. Chief executive Mark Allan has extensive knowledge and experience of the property sector and says that the long-term nature of his company's work presents a number of challenges.

"Looking at some of our large-scale regeneration projects such as the former MG Rover plant at Longbridge, having been there for 12-13 years we are still less than half way through the wider regeneration of that area," Allan says. "In Swansea, where we acquired a substantial land holding from BP, remediated it over a number of years, delivered a new university campus and gained outline planning consent for 4,000 homes, we have been involved for well over 10 years and again we are well under half way through. So, a key challenge is being set up to be able to take a really long-term view," he says.

Allan says that looking long term is not straightforward, particularly in terms of financing and putting the capital together. "I'm sure we are seeing a lot more institutional involvement in the sector and by nature that is more long term, but one of the key challenges for us is to structure something where you can be putting a huge amount of cash down and some of it is generating no income up front," Allan says. "You have to manage a strategy of not having too much cash tied up but still being able to progress the plan at an appropriate pace with a long-term view," he explains.

Allan says that access to long-term funding would help the sector. "Investors are typically not looking at 25-year returns they are looking shorter term so that inevitably gives us some restriction, so if there were forms of capital available that were taking that long-term view that would help," he says.

A stable regulatory environment is also important. "The regulatory environment is changing quite regularly and devolved powers are having an effect such that, depending on where you are developing across the UK, it's a different regulatory environment that you have to deal with," Allan says. "It brings in more stakeholders to manage and having more local authorities and other bodies to deal with is also a complicating factor, but I have to say that managing all of those stakeholders is something that gives us a competitive edge," he says.

Allan would also like to see improvements in the procurement process, especially around the cost of bidding. "On some of the large projects we are currently bidding on, the procurement process is incredibly costly to the extent that you'll have three parties going forward on bids that will all have to negotiate the entire transaction before knowing whether they are selected or not," he says. "So the level of abortive costs that you can run up on a project without any guarantee of success is pretty prohibitive. Bidding costs can be not far off seven figures without a guarantee of winning, so there is some challenge within the procurement process that needs to be improved," Allan says.

"The infrastructure industry needs to do more to attract the very best leaders. It needs to emulate the success of the financial services sector in grabbing talent and allowing it to thrive."

Jackie Sadek
Chief Executive,
UK Regeneration

Jackie Sadek has more than 20 years' experience in property development, managing large-scale urban regeneration projects and public-private sector partnerships. An expert in stakeholder engagement and the development of complex land ownership partnerships, she was recently appointed to chair the Constellation Partnership to deliver a major regeneration of Crewe around the arrival of HS2 to the town.

"We have seven local authorities in the partnership – three unitary, three districts and a county – so we have a slight governance conundrum," says Sadek. The partnership also includes two local enterprise groups and these nine different stakeholders cover 40 square miles around Crewe station. "In just over 10 years' time, we'll be getting HS2 Route 2A, which is the line from Birmingham to Crewe," Sadek explains. "So, we will be just 55 minutes from London, 15 minutes from Birmingham and 15 minutes from Manchester, making us the single best connected place in the country."

"We are trying to use the significant investment in the HS2 infrastructure as a platform for growth in the Crewe Constellation. We have targets of 100,000 new homes, 120,000 new jobs and we have a masterplan that we've already used in Dubai and will take to China to seek funding in the next few months. Our aim is to use the HS2 investment as a platform for much more inward investment into the area," Sadek says.

"The work we're doing is based on the success that they've had in Lille. Twenty years ago, it was a small industrial town in northern France and now Lille is the second-largest city for office workers. The local leadership has taken a vision and run with it. That's what we're aiming to do in Crewe and the surrounding areas. If we get it right, then we'll create a multiplier effect that benefits the local communities and the national economy."

A key challenge for the Constellation Partnership is uniting the different stakeholders involved. "We have managed to get everyone to work together and we have a very harmonious partnership; a cross-party coalition of people who are all pulling in the same direction," says Sadek. Coordinating five local authority plans is also a challenge, along with working through land ownership issues and creating the demand for the housing that will be built," she says.

Sadek is also concerned about skills. "We've got a real capacity issue in terms of building the houses because one million construction sector workers are retiring by 2020. So we are working with universities and colleges on modern methods of construction so that we can get the people we need to build those 100,000 houses," Sadek says.

Funding is also a key challenge. "HS2 will bring in the line but Network Rail won't fund the station, so we need to work that out," says Sadek. "Is it going to be Cheshire East Council or is it going to be as package of investment where we offer some land to somebody to come in and build a big office development and provide us with a station as a quid pro quo? There's a lot to work through," she explains.

An enthusiastic advocate for developments, Sadek is clear about the importance of leadership in delivering infrastructure. "Good civic leadership is vital and we have that in the partnership," she says. "We have one organisation that stakeholders can talk to. On a national scale I think we need more effective leadership. Things still take too long to come to fruition and we have to get better. We need to up our game with a renewed impetus on infrastructure because in a post-Brexit world we are going to need it."

"We are not going to deliver the government's targets on housing by traditional approaches to delivery, so we have to do things differently."

Colin Skellett
Chief Executive,
Wessex Water and
YTL UK Group

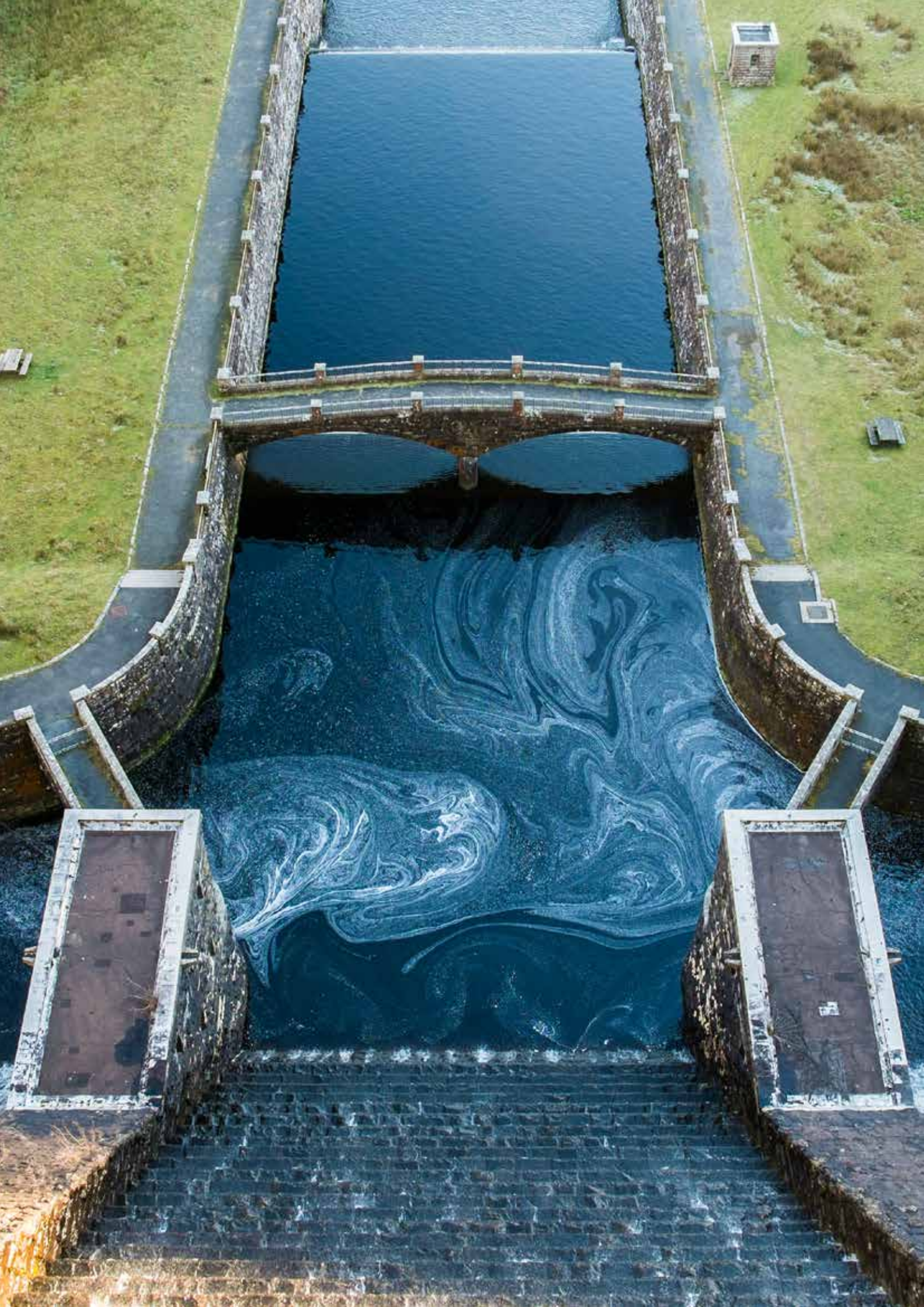
Wessex Water is a regional water and sewerage business serving 2.8 million customers across the south west of England. Since 2002 it has been owned by the Malaysian company, YTL Power, which has recently formed a new UK subsidiary, YTL Developments, to enter the housebuilding and commercial market within the UK. YTL has increased its investment in the UK because they like the "stability of the UK, its rule of law and the independence and transparency of regulation," says Wessex Water's group chief executive, Colin Skellett.

For a water and sewerage business, the regulatory timetable remains a key challenge. Skellett explains, "The regulatory regime operates in five year cycles, which does not match such a long-term investment business." Privatisation significantly increased investment in water and sewerage infrastructure, but most of this has been directed at raising standards. There has still not been sufficient investment in replacing basic infrastructure – current levels imply that sewers last for 1,000 years and water mains for 400. Climate change is also driving the need to improve resilience so we need to both find innovative solutions and grow the investment in longer resilience. The economic climate has meant a focus on holding down prices but this needs to be balanced against the longer-term investment requirements.

For YTL's housebuilding and development business, one of the key issues is the planning process and particularly the time it takes to navigate. "Nobody is suggesting that there should not be proper planning controls, but it can be quite a tortuous process," Skellett explains. "We recently acquired Filton airfield, a 360 acre brownfield site north of Bristol with an almost complete outline planning application. Improving that application and going through all of the processes will take two to three years before we can start building – and this is with a very supportive local planning authority. Part of it is due to the rigidity of the planning system, but also to the limited resources that are available in local planning authorities. We need to properly resource local planning departments and simplify the process."

Skellet also hopes that the new Metro Mayor for the West of England will take a wider view of planning, transport and skills, which he identified as a particular challenge for the region. "Wessex Water has over 100 apprentices, more than we have ever had before, but the skills gap is growing and Brexit will not make it any easier. In this part of the world, we have Hinkley power station and rail electrification that are also competing for skills. We need to be better at raising the profile of apprentices and attracting more people into apprenticeship schemes.

Skellett thinks there are three strands to dealing with the skills gap. "The first part is to make sure that there is proper funding of skills education," he says. "The second is to raise the status of apprenticeships with pupils, parents and teachers and the third is to make it easier for smaller businesses to take on apprenticeships." Skellett also believes that the industry needs to be more innovative. "The more we can do to drive innovation and different ways of doing infrastructure, such as off-site construction, the more it will help us fill the skills gap. We are not going to deliver the government's targets on housing by traditional approaches to delivery, so we have to do things differently," he says.



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