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Insights

AUTUMN STATEMENT 2015: IMPACT ON INFRASTRUCTURE - THE MARCH OF THE BUILDERS

Nov 25, 2015

SUMMARY

It is that time of the year again….. Black Friday, Cyber Monday and after the Chancellor's Autumn Statement, perhaps….. We-Build Wednesday?

ECONOMIC SECURITY

The themes of rebuilding Britain and ensuring Britain's economic security ran throughout the Chancellor's speech. A low welfare, high wage economy, the transition to the national living wage and an emphasis on educational skills and training all featured. Skills will be vital to the delivery of national infrastructure schemes.

With UK growth highest in the G7 since 2010, the emphasis was on an economic recovery felt across the country. But the Chancellor flagged that UK plc's productivity still lags markedly behind our competitors. The Autumn Statement is part of the Government's attempt to correct this.

This focus is complemented by a reiterated, expanded commitment to rebalancing the UK's economy, with further focus on devolution and aligning infrastructure decisions with regional aspirations.

The much trailed cuts to transport and local government were as expected, with the Chancellor having little room to move when protected departmental expenditure is taken into account. However, these cuts were directed at the departments themselves as opposed to often vital capital expenditure.

The Chancellor's announcement of £12bn more capital investment on top of current departmental limits is particularly welcome.

RESHAPING THE STATE

The theme of the shape of the State was an important narrative, seeing expenditure on the State falling from 45% of national income to 36.5% of national income by 2019/20, through cutting Government departmental revenue budgets, handing power to local communities, releasing public sector land/assets and privatising state enterprises – all part of a much vaunted long-term economic plan.

Support for infrastructure across the country was apparent – the Chancellor talked of the spread of power and wealth, including the delivery of long-term infrastructure nationwide, the recent devolution deals delivering transport and skills, and elected mayors using funds raised to deliver local infrastructure projects where they are supported by the local business community. The Chancellor labelled it his "big package" of new powers and responsibilities for local authorities, and perhaps while there wasn't anything massively new, the continued narrative in respect of infrastructure could offer greater certainty for all those engaged in it.

SO WHAT SPECIFICS CAN THE INFRASTRUCTURE SECTOR TAKE FROM THE CHANCELLOR'S SPEECH?

The focus on UK infrastructure over recent years clearly remains an important part of the Chancellor's message.

The Chancellor was clear that the UK hasn't invested enough "for a generation" – including in terms of new roads, railways and energy. Skills also got airtime – which is of course a major issue faced by the UK infrastructure industry.

Generally, infrastructure investors are attracted to the sector's relatively low-risk, low volatility, long-term and stable investment profile, and Osborne was quick to note that Britain topped the league table of the best places in the world to invest in infrastructure. And while the past 6 months of UK policy on infrastructure has been far from stable, with major announcements on devolution, planning powers, the merging of Infrastructure UK and the Major Projects Authority and the creation of the newly formed independent National Infrastructure Commission to be headed by Lord Adonis; the message to the world's investment community seemed clear – investment in UK infrastructure remains a commitment of the UK administration.

THE NATIONAL INFRASTRUCTURE PLAN?

Finally, in terms of the longer term plan, we knew that the vehicle known as the UK National Infrastructure Plan would be in for its annual MOT, but following this year's changes and the establishment of the National Infrastructure Commission, it's having a whole new bodywork – and today it was confirmed that in Spring 2016 we will have a new acronym in the form of the NIDP – the National Infrastructure Delivery Plan – not quite the festive theme of the NYPD choir singing, but nonetheless hopefully indicating acceptance that the existing plan needed to be more of a delivery plan than a list of projects! We will of course have to await the Spring before we know more, but hopefully this change in approach can only help the UK infrastructure industry.

So, turning to the specifics:

TRANSPORT

- While the Department for Transport's budget has been cut by some 37%, there is a large increase of 50% in capital expenditure (to a total of £61bn) – more detail is needed, but this has to be seen as positive given the previous CSR settlement.
- A large roads building programme, announced as being the largest since the 1970s.
- An announcement of £5bn spending on roads maintenance, including the creation of a "Pot-Hole" Fund.
- £11bn of transport investment in London – schemes intended to benefit include Crossrail 2 and new underground trains.
- Up to £250m for specific road measures in Kent to assist with the effects of Operation Stack.
- Northern Powerhouse – £13bn to be spent on transport in the North over this Parliament. Projects include integrated ticketing and a commitment to fund Transport for the North's strategic role.
- Perhaps unsurprisingly, the most notable absentee was aviation capacity expansion; but as we know the Government's announcement on the next steps should now only be weeks away.

HOUSING

- The Chancellor was clear, "we choose to build" and committed to doubling the housing budget.
- Commitment to deliver over 400,000 affordable/part ownership houses over the life of the Parliament, with a number of new incentive schemes, including first-time buyer discounts.
- More flexibility in shared ownership development schemes, including greater flexibility on who is eligible to participate/develop etc.
- "Right to Buy" pilot to be launch for five Housing Associations.
- Releasing public land for over 160,000 homes.
- Re-designating commercial/industrial zoning to residential.
- Loans to smaller house builders.

- Specific “London Help to Buy” scheme.
- More reform to the planning system was trailed (will there ever be a year without planning reform?), and there’s some limited detail. As we know, there are proposals to allow major housing to be consented by DCOs. Additionally, proposals include a delivery test as against local plans; developments on the role of neighbourhood plans, and proposed amendments to planning policy to “ensure the release of unused and previously undeveloped commercial, retail or industrial land for Starter Homes”. As ever, we await the detail.

ENERGY

- Commitment to energy research including small-scale nuclear power generation.
- Removal of eligibility of energy generation projects from venture capital funds.
- Creation of a Shale Wealth fund for local communities to benefit from associated economic benefits.
- Reform of the Renewable Heat Incentives – no further details on this, but we will be watching this closely as will industry.
- Large industrial electricity customers to be exempted from climate tariffs.
- Doubling commitment to low carbon electricity generation, in line with ensuring a positive deal in the Paris Climate Change summit.

PRIVATISATION

- Not mentioned in the announcement, but it is likely that the Government is looking to embark on one of the largest privatisation programmes since the early 1980s – Government trading companies that look to be part of the disposal programme include the Land Registry, Companies House, Royal Ordinance, Royal Mint. All of these have the potential to create infrastructure-like income models and could well be of interest to cross-over investors.
- Greater potential interest is the drive to ensure use of surplus land assets – Network Rail and Transport for London are in the frame.

DEVOLUTION

- The theme of devolution and the transfer of power (with responsibilities) continues.
- A £12bn Local Growth Fund to enable Local Enterprise Partnerships in the years 2015-2021.
- 26 new local enterprise zones, with further towns designated.

- Local authorities able to keep 100% of the surplus land disposal proceeds – this ought to create some exciting regeneration and development opportunities.

EDUCATION ESTATE

- Commitment to £23bn for school building.We very much wait to see the detail on how these schools will be delivered by the Education Funding Agency, including possibly through PF2 style procurements.

PRISON ESTATE

- Commitment to building nine new prisons and the disposal of town-centre Victorian prisons to enable housing and other regeneration projects. Holloway prison is one of those slated for closure.

So with wide-ranging commitments to:

- increases in capital expenditure;
- commitments to housing;
- greater devolution (including, crucially, local authorities being able to retain 100% of disposal proceeds from surplus land sales); and
- skills/education commitments;

…….could this really be a Comprehensive Spending Review for "the Builders"?

RELATED PRACTICE AREAS

- Infrastructure

MEET THE TEAM

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