

Insights

WHAT NEXT FOR UK INFRASTRUCTURE – THE SPRING 2019 UPDATE

Mar 14, 2019

SUMMARY

The Whitehall and Industry Group conference on infrastructure, entitled a 'cross sector perspective' was held on 13th March and brought together Government, the National Infrastructure Commission (NIC), and public and private sector parties with roles in the future of UK infrastructure. This blog identifies some of the headlines from the day.

INTRODUCTION

At a time of national turmoil, there has never been a more important time to look at the infrastructure that makes our country tick. The power and gas to our homes, the water in our taps, showers and toilets, the WiFi we are reliant on for work and play, the roads and rail that get us around. Those are the things we take for granted and yet can drive our country and support our jobs and economic prosperity, in the long term.

THE BIG PICTURE

First up was Sir John Armit (chair of the NIC), who gave an overview of the latest policy positions taken, for example energy generation, EV etc. Importantly, as we know, the NIC produced its first ever National Infrastructure Assessment ('NIA') in 2018, and the NIC wants UK Government, when it responds (in its first ever National Infrastructure Strategy ('NIS')), to respond with positive steps; and not just paying lip-service and saying that UK Government is already doing it all already.

Representatives of Government departments - then had their say. Amongst other discussion points (and there are more questions than answers but better to know the questions for starters!):

- it was recognised that clearly there is a need for fresh thinking on private finance. (See below!)

- the juxtaposition of economic regulation / the regulators, vs proper need planning, was also raised. The ongoing NIC consultation on regulation was also rightly noted.
- How do we as a country 'shift the dial' around infrastructure? The modern world is moving fast so how does the UK keep up? Behaviour change, better procurement, and greater interconnection between industries / sectors?
- But in any event it was felt that we are now in a "Golden age" of investment in transport infrastructure.
- What about regional planning, devolution, and metro mayors - the balance between national interest and local interest, and what level of devolution is proper?
- The future - what do we want to achieve by 2050? Addressing climate change, carbon emissions control, air quality?

JOINED UP DELIVERY

Next we heard about 'Delivering a joined up approach to sustainable infrastructure' - on this topic we heard from Alex Plant, regulation director of Anglian Water, who gave an overview of how a water company formulates its plans, rationalises them in light of the regulator's feedback, and ultimately delivers against that background. The audience was counselled that collaboration is key to sustainable delivery - including the economic regulator, other regulators (like the EA), central Government, local Government, LEPs, business users / customers, and all other stakeholders.

FUNDING

This session looked at 'Land value capture' - and some key themes were (unsurprisingly) that the bigger the project, the bigger the uplift in surrounding values, and that commercial developers accommodate uplifts long before residential purchasers (and note 80% of new development is residential).

Mechanisms for LVC might include: CIL & s106, Council tax supplements, stamp duty supplements (but note the risk of market distortion), zonal business rate supplements, & Development Rights Auction Mechanism (DRAM).

Factors to consider include: legislative change & political risk, need for landowner co-operation, up-front costs (for example CPO costs), ability to accommodate changes in circumstances, ability to generate early revenue, & overall ability to capture value.

Questions to consider, included: the replacement of CIL & 106 with a 'flat roof tax', because of the negotiation of s.106 obligations leading to delay and uncertainty of costs; but on bigger schemes

there is a need for flexibility. Should Government actually just stop prevaricating and choose one option for LVC, to give certainty? As they say, don't let the best be the enemy of the good?

FINANCING

And hot on the heels of the funding, we heard about the financing options.

There is no shortage of finance out there, from a range of potential sources, ready to get into infrastructure delivery. Investors recognise that infrastructure is stable, good for growth, and for people (ie for some investors, their customers). Thinking about Brexit, what about a replacement for the European Infrastructure Bank (EIB); perhaps a new national Infrastructure bank?

In terms of other sources, interesting comparisons were made to the approach of the USA, with municipal government borrowing, albeit in the UK, local government borrowing is somewhat different. Additionally, where there's new technology, what about 'seed funding'?

Regulated Asset Base (RAB) models have been used on examples such as Thames Tideway Tunnel, and has been rightly viewed as a success. Is the RAB model the next big thing for UK financing? Probably not, as 'one size fits none', but it may offer a starter for ten in some spheres.

DELIVERY

'Delivering major projects' - we heard from the Infrastructure and Projects Authority (IPA). Alongside the NIC and HM Treasury, IPA helps facilitate delivery of UK infrastructure projects. That includes its focus on 'Transforming Infrastructure Performance', not just at construction stage but over the entire lifecycle of the asset.

Examples quoted include water companies using standard designs of pumping stations, and the nuclear industry substantially lifting and shifting the design of the new Hinkley Point C nuclear power station in South West England, up to the new proposed nuclear power station at Sizewell C in Suffolk in Eastern England. The UK's Priority Schools Building Programme was also cited as ultimately an innovative success story.

Importantly, we must not forget the big picture, that we are creating places for people to enjoy and to thrive. It's not just tarmac and concrete, infrastructure delivery is a process of connecting communities and facilitating growth.

NATIONAL INFRASTRUCTURE STRATEGY - WHAT MIGHT IT CONTAIN?

Penultimately we heard views (including from CBI, BCC, ICE & Green Alliance) on what the UK Government might look to do in terms of its National Infrastructure Strategy (NIS), expected later in 2019, responding to the inaugural National Infrastructure Assessment (published in 2018).

So some thoughts about the principles:

- connectivity between different sectors is important, and avoiding disconnects - it is not just about pouring concrete in 'silos', and expecting growth;
- can we protect the environment and manage climate change better;
- is the key about holding central Government to account? Or is that less the issue, and is it more about the way to influence political will?
- devolution has a role, but not just wholesale - effectiveness is critical;
- the supply chain can hold real power in influencing central Government;
- hearts and minds - how our industry communicates with the public at large - this needs work so that we focus on what is important to the wider public; is one way to ensure that infrastructure = jobs = bread on the table - that would bring home to people what infrastructure does;

WRAPPING UP

Lastly we heard from Phil Graham, CEO of the NIC. In concluding the day, we were reminded that long-term infrastructure delivery is all the more important, when we are going through the national turmoil of the UK (potentially) leaving the EU.

So overall, a good day looking at the macro issues facing UK infrastructure, and marvel at how far we've come over the last decade.

But we must look to the future, and arguably infrastructure will be the backbone of the UK surviving and thriving.

MEET THE TEAM



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