In conversation with Bill Esterson MP, Shadow Minister for Business and Industry – ICE Presidential Roundtable Summary

April 2023

Background

Infrastructure systems are integral to the UK's long-term ambitions: carbon neutrality, climate resilience, economic prosperity and energy security. However, there is a broad consensus that the UK has underinvested in its infrastructure for the past four decades.

Infrastructure is expensive to plan, build and operate. The UK's National Infrastructure Commission estimates that the private sector finances and delivers around half of the country's infrastructure. The transition to net zero is a huge economic opportunity but, amid high inflation and labour shortages, global competition for skills, resources and investment is fierce.

Without strong policies and pipeline certainty, the UK risks being left behind. In 2019 the World Economic Forum ranked the UK 11th out 141 countries for the quality of its infrastructure but its reputation is in decline. In 2022, the UK switched from most to least attractive Western European investment destination according to a report by the Global Infrastructure Investor Association.

Participants at this ICE roundtable held a wide-ranging discussion about what the government can do drive private investment in the UK's infrastructure.

Recap: In 2021, the UK government set out a £650bn pipeline of public and private infrastructure investment for the following decade. However, from 2025/6 capital investment will be frozen. With inflation this effectively means a cut to public spending. Major transport projects already face being delayed or re-scoped. However, the US Inflation Reduction Act and the EU Net Zero Industry Act are incentivising huge levels of investment into the net zero transition in those regions. The global competition for talent and resources has never been greater.

Key discussion points

- The UK's regulatory system is failing to deliver increasingly complex outcomes and drive the level of investment required to meet the UK's infrastructure needs. Reforming it will also mean addressing the question of where the cost of infrastructure investment should fall between taxpayers and consumers.
- The UK government needs to provide investors and the supply chain with more certainty about the future infrastructure pipeline to drive investment. Making key policy decisions and increasing the UK's skills capacity could all increase investor confidence.
- Deciding which investments to prioritise is difficult in a low economic growth scenario such as the UK is currently experiencing. There is a need for governments to balance providing long-term certainty and major projects with delivering quick wins and local improvements.
- Global competition for investment and skills is extremely high. Other countries, such as Hong Kong, are using innovation through digitisation to improve efficiency and attract investors.

Fix regulation to drive investment

A huge amount of investment into UK infrastructure flows through its regulated industries. However, participants raised concerns that the UK's regulatory system is not fit for purpose – failing to work for consumers or investors, not delivering efficiency or sustainability and lacking political and public trust.

The UK's regulatory system was designed to drive efficiency, but is increasingly expected to deliver a range of complex outcomes including affordability, reliability and sustainability.

Huge levels of investment are needed to deliver new, sustainable infrastructure assets and adapt existing assets. Regulation needs to drive this investment. But, if regulators are prioritising keeping down customer bills, they are not releasing the level of funding needed to match the scale of investment required.

This raises the need to address the question of how much of the cost the consumer should bear and how much should fall on the taxpayer to deliver the infrastructure required for the net zero transition and the UK's other strategic goals.

Pipeline uncertainty and skills gaps undermine investor confidence

Participants broadly agreed that the quality of a country's infrastructure is important for giving investors the confidence to support new projects. However, they also explored a range of other factors governments need to tackle to drive investment.

The discussion highlighted the need for the UK to address policy gaps, enhance local powers and funding settlements and increase its skills capacity to build up investor confidence. At present, there is much uncertainty from government about its future policies and investment in the infrastructure pipeline.

Long-term visibility about which projects will be taken forward can drive innovation in areas such as Modern Methods of Construction, which can improve productivity. One approach to increasing certainty is to move from project to programme-based planning. In energy there are also outstanding policy choices about which technologies the UK intends to back to deliver net zero and energy security.

Pipeline certainty also helps drive complementary investments in linked projects, such as new housing and commercial developments around new transport projects, that maximise the wider benefits of infrastructure investment.

Global competition for skills is high, but the UK has a shortage of people coming through the technical skills pipeline, exacerbated by a shortage of teachers. One solution could be to improve the link between investment in teacher training to national priorities. There is also a need to ensure the UK has the facilities required to deliver training, such as the large spaces needed to teach retrofitting.

Prioritisation and making the case for infrastructure investment

Deciding which investments to prioritise is difficult with so many competing demands, especially in a low economic growth scenario such as the UK is currently experiencing. Governments need to balance providing long-term certainty and major projects with delivering quick wins and local improvements. The UK, like all countries, also needs to pay more attention to maintaining its existing infrastructure.

Strengthening the UK's strategic planning framework can improve decision-making. Infrastructure investment should also be aligned with a clear and compelling spatial framework underpinned by community data. The regeneration of East London, for example, shows what can happen when investment is guided by a long-term spatial vision.

The UK's rail investment strategy is currently dominated by major investment programmes, such as High Speed 2. One challenge is how to balance this against ongoing investment in the existing railway and smaller schemes which have the potential to deliver important local benefits. It was noted that England does not have a national transport strategy to help guide these decisions.

There may be a need to consider other mechanisms to raise investment funds. Road pricing for example, would facilitate investment as well as having wider environmental benefits.

There is also the need to do more to engage the public, build their confidence and make the case for why infrastructure investment is important. Addressing the skills gaps creates an opportunity to help make the case for infrastructure investment by framing it as an investment in people.

Lessons from other countries

In Hong Kong, construction contributes 8.7% of its GDP. The government wants to increase output by 25% in the next three years. However, it is facing a number of challenges in delivering this target.

Hong Kong has a labour shortfall of 12,000 people. It also depends on foreign investment to manage much of its current infrastructure, but there is concern that it will become un-investable if it is not upgraded to modern standards in areas such as energy consumption and embodied carbon.

To help drive the investment it needs to meet its targets Hong Kong is aggressively digitising construction to improve efficiency, using regulation and incentives to encourage the uptake of new digital tools in the supply chain.

It is also focused on understanding why investors are attracted to in Hong Kong – for instance to take advantage of the opportunities in the Greater Bay area – in order to leverage that to increase investment.

Questions to take away

- What regulatory reforms are needed to achieve the level of infrastructure investment required to meet the UK's strategic goals?
- Who should pay for the infrastructure required to meet the UK's strategic goals and how should governments and regulators seek to balance consumer versus taxpayer cost?
- How and what should governments prioritise in a low economic growth scenario? How can they make a stronger case to the public for infrastructure investment?