

# TURNING MOMENTUM INTO DELIVERY

CBI/AECOM INFRASTRUCTURE SURVEY 2015



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## FOREWORD, John Cridland, CBI



John Cridland,  
**Director-General, CBI**

*John Cridland*

UK growth is on a firm footing and business investment, productivity and wage growth are on the rise. We have taken great strides in recognising the importance of long-term, ambitious plans for our infrastructure to the health of our economy, and the lives of our citizens. And we've hit some key milestones in turning ambition into action, like the start of Thames Tideway Tunnel and HS2.

In this context, over 700 business leaders responded to the CBI's fifth annual assessment of the UK's infrastructure, this year in partnership with AECOM. There is some good news and some bad.

The good news is that twice as many businesses now feel that the UK's infrastructure is moving in the right direction, compared with those who feel it is deteriorating. And with the establishment of a National Infrastructure Commission to assess our future needs – a step change supported by businesses in this survey – we may finally see the end of the circle of politicisation and delay which has plagued UK infrastructure for decades.

But our ambition has yet to filter through to tangible results. Over the summer, for example, we had a reversal of government support for renewable energy, leading Drax to pull out of a £1bn investment in carbon capture and storage.

The results of this year's survey set the agenda for a new parliament, and businesses are clear about where government needs to focus its firepower to turn momentum into delivery.

Concerns about energy security underline the need to articulate a clear long-term vision for how we power our industry in the decades ahead. Pessimism about the future of our road network suggests that despite the welcome creation of a Roads Fund over the summer, we need to boost investment – rather than simply halt it. And of course, then there is the impending decision on runway capacity in the South East. One of the stand-out figures for me is that 41% of firms across the UK already see a tangible impact on their businesses as a result of our failure to take action, demonstrating what a national issue this is.

Yet with so many projects now in the pipeline, it's not just about getting the green light for new investment – it is about putting the peddle to the metal once the decision is made.

At a time of constrained budgets, with the need to find further savings during the course of this parliament, infrastructure delivery agencies and planning departments must continue to do more with less.

This survey shows the willingness of businesses to engage in bold thinking to solve these challenges, but government must ensure its new found appetite for long-term thinking translates into a clear and consistent ambition for all of the UK's infrastructure networks. The prize for getting this right is significant: investment boosted as confidence soars; costs reduced as problems are foreseen; delays avoided as support is bolstered. But to make this happen, it is essential that we get ourselves on the front foot now.

## FOREWORD, Richard Robinson, AECOM



Richard Robinson,  
**Chief Executive, Civil  
Infrastructure, EMIA,  
AECOM**

Business is operating against a backdrop of uncertainty: with the outcome of the EU referendum increasingly difficult to predict, rising nationalism in Scotland and the imminent Comprehensive Spending Review expected to place renewed pressure on public sector budgets, these are operationally challenging times.

One thing that is clear is the strong correlation between infrastructure investment and economic improvement. Our roads, railways and ports are the veins and arteries of the body of commerce. When infrastructure decisions are delayed, business feels the pain. Take aviation, for example, where government is facing mounting pressure to make a swift decision about a new runway in the South East. Our survey provides strong evidence that political procrastination is impacting growth, with 41% of respondents – rising to 50% in London – saying failure to tackle aviation capacity is harming their business.

Greater empowerment at a local level is a cause for optimism. With devolution gaining momentum across the nation, support from business is broadly strong, with 61% of respondents believing that the change will improve the delivery of local infrastructure, rising to 73% among English companies. All eyes are now on the impact of the recently announced decentralisation of business rates, to see if new opportunities for providing local financial stimulus can speed up on-the-ground delivery.

The creation of the National Infrastructure Commission is also welcome news. A long-term approach to planning, underpinned by a steady funding stream, should help ensure that infrastructure capacity better reflects demand. Crucially, the commission ought to provide increased certainty for infrastructure operators and owners, as well as the companies tasked with delivery.

But while the signs from government are positive, it remains to be seen whether the new body will have the necessary binding decision-making powers to initiate infrastructure and get Britain building. Industry optimism will be short-lived if the National Infrastructure Commission becomes nothing more than a long-grass forum into which politically sensitive projects are kicked.

Similarly, the recently published National Infrastructure Plan for Skills is a promising approach to a thorny issue. It goes some way towards mapping expertise against pipeline projects, informing companies' recruitment strategies and identifying the gaps that need to be addressed. However, the government's proposed apprenticeship levy appears punitive, sending the wrong signal to those tasked with training and developing the workforce of the future. The message from business is clear: with 81% of respondents demanding improved apprenticeship funding, a more collaborative approach between government and industry is needed to address the skills agenda.

Finally, the greatest challenge for government is to build confidence, establishing the financial and operational climate that will accelerate delivery. There have been positive steps such as the creation of Highways England as a semi-autonomous delivery body and the government's decision to underwrite Chinese investment in the Hinkley Point C nuclear power station. But more needs to be done to foster an environment that encourages the necessary delivery models, such as joint ventures, partnerships and alliances, to get Britain building. This requires government support for the development of UK companies' organisational skills and intellectual assets, rather than arming the workforce with shovels.

## Executive summary

### Story in numbers

With 94% of businesses reporting quality of infrastructure as a decisive factor when planning future investment, infrastructure remains central to the growth challenge in the current parliament.

The focus on infrastructure in the last parliament means twice the amount of firms (43%) see UK infrastructure as improving compared to those that see it as deteriorating (23%).

Yet despite ambitious plans for the current parliament, the majority of firms (53%) are not confident of seeing tangible improvement in the coming five years.

With 62% of firms unhappy with the pace of progress, 'turning momentum into delivery' must be the hallmark of this parliament, despite fiscal pressures.

This requires a laser-like approach to tackling a number of thorny issues...



**Energy:** With security of supply a crucial factor for three-quarters of firms, 97% look to government to support a diverse mix of new generation.



**Rail:** 9 out of 10 businesses are concerned that trains are full, and while critical, 92% want a clearer indication of how HS2 sits within the longer term plan for UK rail.



**Roads:** With 96% of firms concerned about congestion on the road network, almost three-quarters are open to road charging as a way of boosting investment.



**Aviation:** Half of all firms are unhappy with the UK's air links to emerging markets and 41% say failure to build new runway capacity is already impacting on their business.



**Digital:** As businesses rapidly digitise operations, 59% of firms are not satisfied with the quality of their digital connections – with reliability the most important factor.

...with an environment primed and ready to support our ambition:



**Planning:** With 85% of infrastructure firms seeing red tape in the planning system as a significant barrier, 7 out of 10 are prepared to consider higher fees for quicker decisions.



**Skills:** 86% of construction firms say with clearer sight of upcoming projects, they will take the lead in boosting the UK's skills, to avoid rising costs to infrastructure delivery.



**Finance:** 78% of investors see risk of policy change as a significant barrier to private investment, so boosting political certainty is critical to delivery of the £411bn needed.



**Devolution:** 61% of businesses see devolution as an opportunity to improve infrastructure, and three-quarters of infrastructure firms view local business leadership as playing a crucial role.



**Taking decisions:** 98% of infrastructure providers want an evidence-based approach to infrastructure, using an assessment of the UK's future needs to build support for key upgrades.

# Right direction, but lacking pace: business sets the agenda for a parliament of delivery

## With newfound consensus on infrastructure, the UK must overturn decades of underinvestment

From a new runway in the South East, to Victorian-scale investment in our rail network; from the UK's first privately financed new nuclear station at Hinkley Point, to funding for the Thames Tideway Tunnel – infrastructure is currently at the heart of our national politics. And with the dust settled on the 2015 election, what is most notable is the level of consensus about the importance of investment in infrastructure to the UK's economy.

Businesses have long been clear about the impact of infrastructure on their competitiveness, and this survey underlines this. 94% of businesses see the quality of infrastructure as a decisive factor when planning future investment.

# 94%

Infrastructure is a decisive factor for 94% of businesses when considering where to invest

All main parties now recognise the transformative effects of infrastructure – something clearly demonstrated by the current debate around the creation of a Northern Powerhouse, and the role east-west connectivity can have in changing the economic landscape of the north of England. Yet rarely has there been such consensus – our national legacy is one of underinvestment over the course of decades, with capital spending levels well below our G7 competitors, and this has impacted on the UK's infrastructure competitiveness (**Exhibit 1**).

Underinvestment is just one part of the UK's lack of international competitiveness though – as the last parliament showed, inconsistency can be just as damaging. With timescales for delivery of major projects often longer than the five-year electoral cycle, sudden change can have a serious impact. The cuts in 2010 shattered confidence, hollowed out supply chains and led to the migration of expertise to our competitors, and although swiftly reversed, it has taken time for the UK to gear up to meet our newfound infrastructure ambitions.

### Exhibit 1 Indicators of the UK's international infrastructure competitiveness

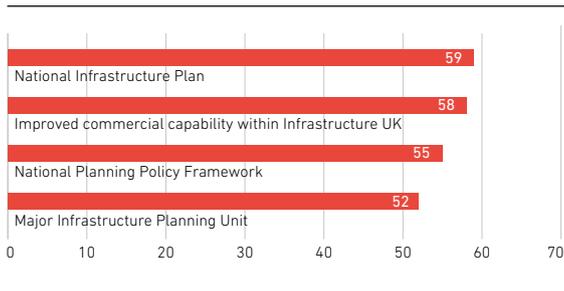
#### THE UK...

- Is 24th for quality of overall infrastructure, *The 2015-16 World Economic Forum Competitiveness Report*<sup>1</sup>
- Came 11th in EY's 2015 Renewable energy country attractiveness index, down from 8th place<sup>2</sup>
- Saw in 2015 its airport hub Heathrow overtaken by Paris Charles De Gaulle as the number one airport for long haul routes<sup>3</sup>
- Ranks 29th for quality of its roads, below Namibia and Sri Lanka, according to the WEF<sup>4</sup>
- Slipped from front ranks to 6th in the *Digital, Social & Mobile in 2015 report*<sup>5</sup>

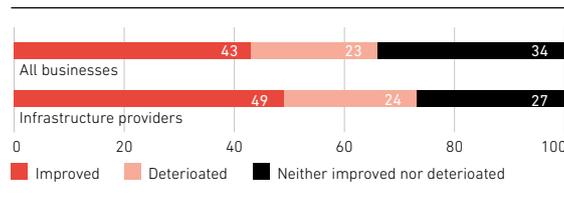
### We are starting to recapture some of the lost momentum...

The actions of the last five years have helped to recapture the momentum. From the creation of the National Infrastructure Plan to the simplification of planning in the National Planning Policy Framework (NPPF), on balance business sees government action as having played a key role – particularly among those firms charged with providing infrastructure (**Exhibit 2**).

**Exhibit 2 Infrastructure providers' support for government initiatives (%)**

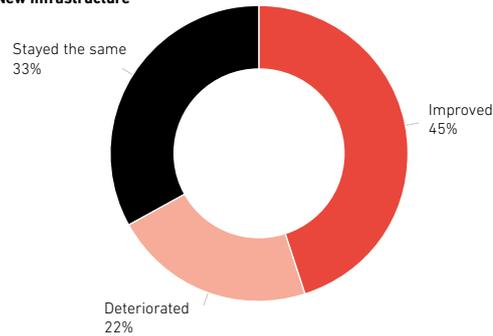


**Exhibit 3 Business perceptions on UK infrastructure (%)**

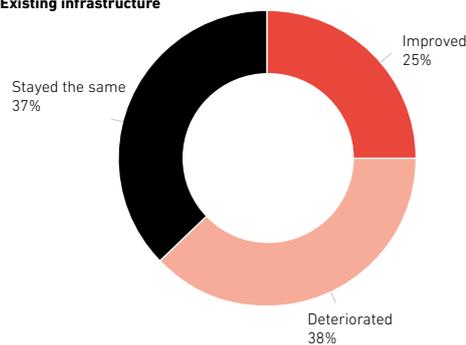


**Exhibit 4 Business perceptions on UK infrastructure: new vs existing (last five years)**

**New infrastructure**



**Existing infrastructure**



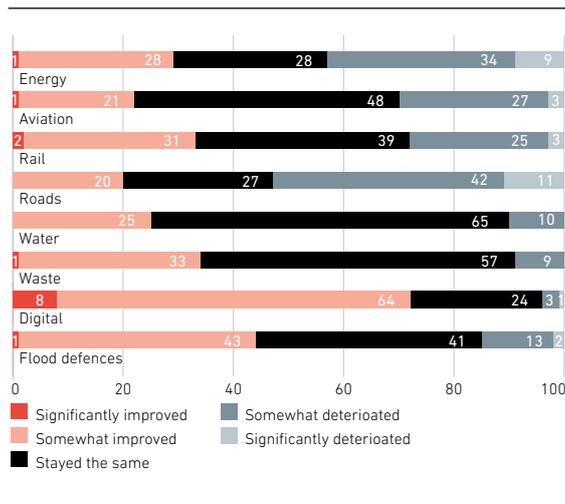
This progress has been seen in key infrastructure sectors too. Whether through the creation of the government's first Road Investment Strategy and transformation of the Highways Agency into Highways England to deliver this, or the completion of Electricity Market Reform (EMR), a number of prerequisites for investment have been delivered. These developments in infrastructure policy have tentatively bolstered business confidence, and the number of businesses that feel UK infrastructure is moving in the right direction (43%) is double those that feel it is deteriorating (23%) (**Exhibit 3**) – a figure that is even higher among infrastructure providers.

Delving into where progress has been the strongest, businesses were most positive about steps taken to boost new infrastructure, with 45% of firms confident that the UK had made progress in this area, compared to 22% that feel the UK's capacity here had gone backward (**Exhibit 4**). Yet in a reversal of this, just 25% feel the story on maintenance is a positive one in the last five years, with 38% seeing the UK's ability to upkeep existing infrastructure as declining, something that may reflect the impact of fiscal constraints on current spending budgets.

**...and the legacy of this parliament must be one of translating momentum into delivery**

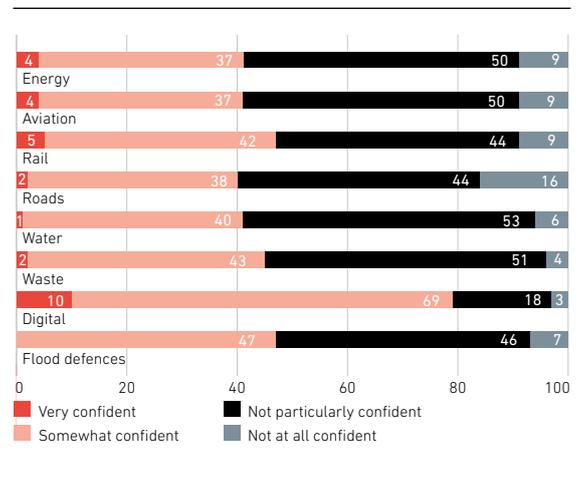
While the ambition to deliver £411bn of investment in the UK's National Infrastructure Plan<sup>6</sup> is positive, it is nothing without delivery. While businesses report that UK infrastructure may be starting to move in the right direction, asking how specific networks have changed on the ground elicits a more guarded response, suggesting more tangible benefits have yet to be delivered. As **Exhibit 5** shows, with the exception of digital and flood defences, no sector records a positive response from more than one third of businesses. The figures in fact remain highly reflective of the situation in 2011 where only digital was seen to have improved on the ground over the previous five years.

**Exhibit 5 Business perceptions of changes in the quality of infrastructure over the last five years (%)**



This is not wholly unexpected: infrastructure projects have long lead times and are long term in nature. Yet, more worryingly, given the scale of ambition, as things stand businesses lack confidence that matters will improve over the next five years either (**Exhibit 6**). There is then clearly a lack of confidence in the UK over our ability to bring our pipeline of national projects into physical fruition soon.

**Exhibit 6 Business confidence that the quality of infrastructure will improve in the next five years (%)**



Dissatisfaction with the pace of delivery is even clearer when businesses are asked directly, with 62% reporting frustration with the current pace. The message from business is clear: government must accelerate delivery over the course of this parliament.

62%

of businesses are unhappy with the pace of delivery

## The 2015 survey sets the bar for making delivery with a difference the hallmark of this parliament

If the legacy of this parliament is to be one of delivery, we need to urgently improve the UK's capacity for turning ambition into meaningful action. Sadly our record in this area is not good. Since the election the UK has seen wavering political support for renewable energy projects and doubt over scheduled rail electrification upgrades.

Delivery with a difference requires a laser-like focus on tackling the most problematic barriers to growth. Whether it is how we fund investment in our road network, where we build a new runway or what we use to power our industry – the UK must proactively tackle a range of thorny issues in the course of this parliament to keep us on the front foot.

The CBI/AECOM 2015 survey highlights five thorny challenges that business wants to see resolved – see below.

# 43%

of businesses feel UK infrastructure is moving in the right direction

Delivery with a difference is not just about tackling key decisions though – it is about creating a business environment primed and ready to support our ambition. This means that when the green light is given for action, the transition to spades in the ground is seamless. Whether it is a planning system that helps rather than hinders investor confidence, available skills to deliver a pipeline of future projects or public support for major projects that provides confidence for supply chains to upscale operations, there are five actions to turbo-charge delivery – see below.

### FIVE THORNY CHALLENGES FOR GOVERNMENT TO TACKLE

- 1 Energy:** Government needs to come forward with a clear, consistent long-term energy plan
- 2 Rail:** Government needs to demonstrate investment in capacity across the UK's rail network to boost business confidence
- 3 Roads:** Invest in the 'whole journey' to boost the resilience of our road network
- 4 Aviation:** The UK needs a new runway to boost connectivity to emerging markets
- 5 Digital:** As businesses digitise their operations, resilience is the key.

### FIVE ACTIONS TO TURBO-CHARGE DELIVERY

- 1 Planning:** Local planning needs to be accelerated, and brought into line with national policy: business is prepared to contribute
- 2 Skills:** Provide longer-term clarity to help infrastructure providers lead the way
- 3 Financing infrastructure:** As the market evolves, government's role must adapt
- 4 Devolution:** With the right leadership, business sees devolution as an opportunity
- 5 Taking decisions:** Deliver a long-term strategy based on assessment of need.

A full breakdown of 2015 survey respondents can be found in the Annex on page 38.

# Infrastructure sectors

**ENERGY:** Government needs to come forward with a clear, consistent long-term energy plan

- In a period of turbulence for the UK energy sector, businesses consider resilience of energy supply the number one priority, with 97% seeing investment in a diverse and secure energy system as crucial or beneficial to business
- With energy costs expected to rise, 91% of firms see a role for government in helping businesses to manage their energy costs, with 88% saying simplification of the energy efficiency landscape is a vital step
- Tackling security and costs requires investment into new generation, but currently 90% of businesses believe this is put at risk by short-term changes to policy, reflecting uncertainty over renewables in recent months

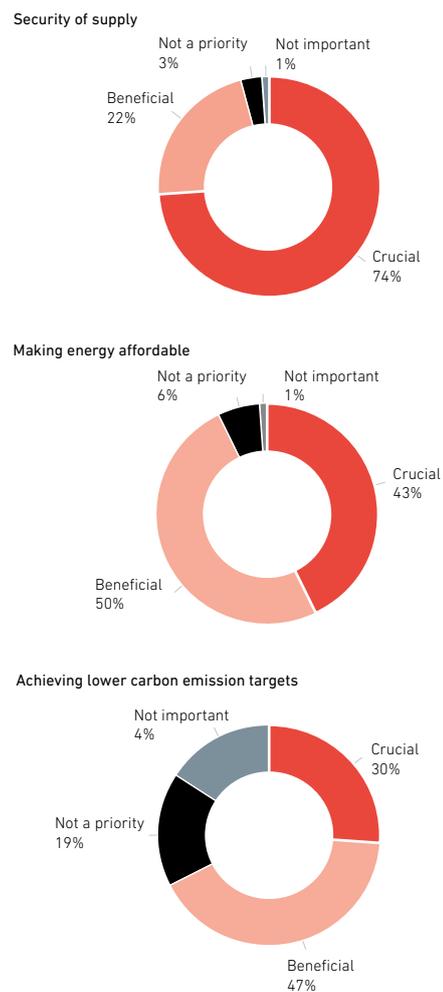
## Investment in our energy infrastructure is mission critical for business...

After five years of reform in the energy sector, the message from this survey is clear: 97% want to see investment in a diverse and secure system. Digging deeper, **Exhibit 7** demonstrates that there is support for all three of the UK's energy goals – security of supply, affordability and decarbonisation. However the biggest priority for all businesses is to ensure a resilient system, with 74% of respondents reporting energy security as crucial. This compares with a much lower number of respondents reporting affordability as crucial (43%), and an even lower number (30%) reporting achievement of lower carbon emission targets as crucial.

97%

want to see government take action to ensure investment in a diverse and secure energy system

Exhibit 7 Business priorities for energy



The importance of energy security is underscored by the fact that the UK's power capacity margins were set to reach 1.2% this winter before intervention from National Grid,<sup>7</sup> due to more plant coming off line than expected, and uncertainty around the outlook for winter 2016/17. Although the right measures are in place to manage these tight margins in the short term, the only long-term solution to the UK's security of supply challenge is to drive investment into our ageing energy infrastructure.

### ...yet policy uncertainty threatens to turn off investor appetite

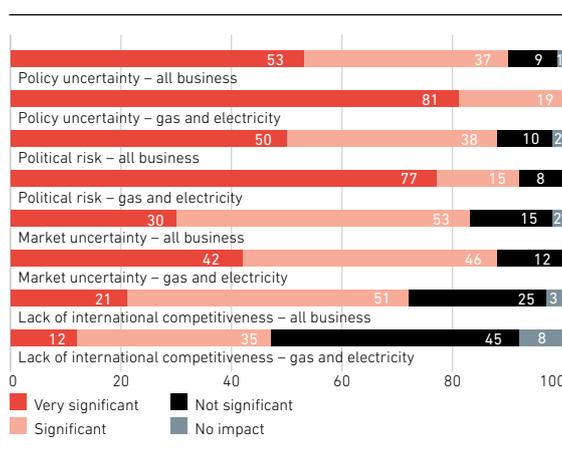
To secure the £110bn of private sector capital which is needed to deliver investments, the last government brought in Electricity Market Reform. This was a major milestone for the energy industry, and it had the support of 95% of businesses in the 2014 Infrastructure Survey.<sup>8</sup> However this survey reveals that a number of perceived threats may yet put this investment at risk. **Exhibit 8** highlights how policy uncertainty and political risk are currently seen to be the biggest dangers to energy investment by infrastructure providers. Industry is notably more worried about these political risks than it is about market uncertainty or lack of international competitiveness.

This reinforces concern over the range of policy shifts brought in by government during its first few months in office, including changes to the Renewables Obligation for solar and onshore wind farms, the scrapping of the exemption applied to renewable power from the Climate Change Levy and cuts to the Feed-In Tariff for smaller scale renewables. Combined, these actions have raised questions about the stability of the policy framework, and knocked investor confidence.

# 91%

expect government support in managing energy costs

**Exhibit 8 Risks affecting investment into energy (all businesses vs gas and electricity)**



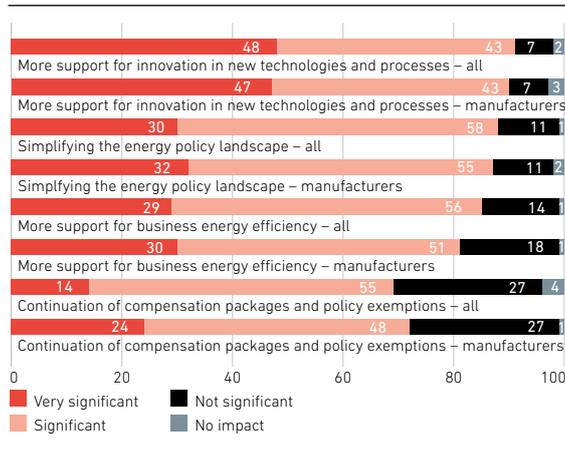
Going forward, it is important that the government seeks to ensure a period of stability in the power sector investment framework. Setting a long-term policy into the 2020s will be an important part of this, while clarity is also needed on how the government intends to align its cost-effectiveness and decarbonisation ambitions.

### Action is needed to support businesses in managing rising energy costs

While securing investment into the UK's energy supply is crucial, energy costs also remain high on the business agenda, with 91% of companies expecting government to play a role in managing these costs. Given costs are expected to continue to rise, this should come as no surprise.

When asked about priorities for managing energy costs, UK firms prioritise energy efficiency (**Exhibit 9**, page 14). 88% of respondents call for the simplification of the UK's energy policy, perhaps reflecting the complex web of overlapping and burdensome policies which can often deter, rather than encourage, investment in this area. With this in mind, the government's review into the energy efficiency tax and policy framework presents an important opportunity to shape a more coherent landscape which unlocks business investment in energy efficiency (**BOX A**).

**Exhibit 9 Business priorities in managing energy costs (all businesses vs manufacturers)**



There is clearly a need for direct financial support for businesses from government too though. In particular, **Exhibit 9** highlights that 72% of manufacturers want to see the continuation of compensation packages and policy exemptions, as initiated in the last parliament, with 24% regarding the issue as very significant.

Finally, the response further shows a strong desire amongst businesses for more support to drive innovation in new technologies and processes. Innovation presents major opportunities which will be essential in meeting the 21st century’s energy and climate change challenges. For example, investment in different technologies has enabled a growing role for on-site energy generation – helping to put businesses in control of their energy future. But trends such as these need government to deliver a policy framework which matches the ambition of business – allowing companies to invest with certainty and confidence.

**BOX A**

**A simplified policy framework is needed to unlock investment in business energy efficiency**

**88%** of businesses want to see government simplifying the energy efficiency policy landscape, while...

**32%** of manufacturers see simplification as very significant

The CBI’s 2013 report, *Shining a Light*,<sup>9</sup> showed that businesses see energy efficiency as a priority, enabling them to improve their bottom line as well as future-proofing themselves against longer-term energy price rises and volatility. There is also a growing trend of firms seeking to generate their own energy, eg through technologies like Combined Heat and Power.<sup>10</sup>

The Treasury’s review into business energy efficiency tax and policy is a welcome step.<sup>11</sup> With 88% of businesses in the CBI/ AECOM infrastructure survey reporting that they want the UK to simplify the policy landscape, it is important government responds to this challenge. The reforms put forward by government, should continue to promote business energy efficiency, support the de-regulation agenda and relieve administrative pressures so that businesses are freer to focus more time and attention on productive activities rather than compliance. Key to achieving this will be ensuring that the new framework is designed appropriately and sensibly and strikes the right balance between distribution of costs and industrial competitiveness.

## RAIL: Government needs to demonstrate investment in capacity across the UK's rail network to boost business confidence

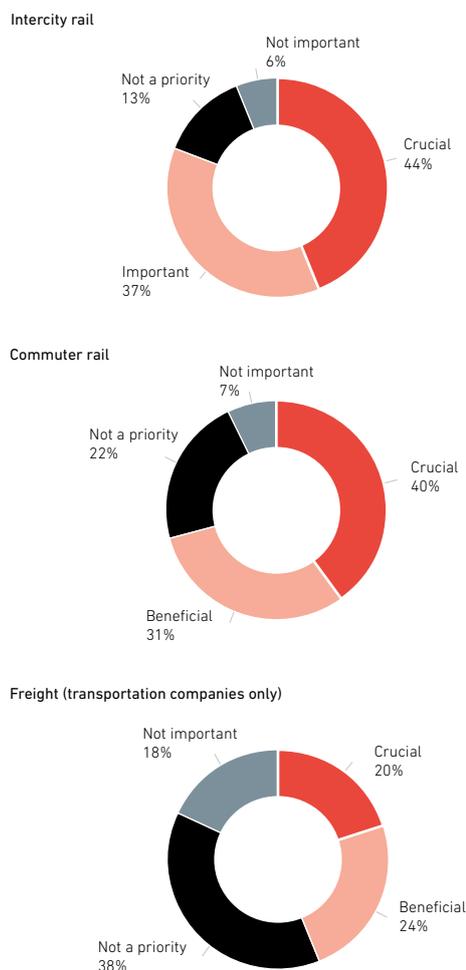
- 81% of firms now see rail as crucial or important to their operations, with both intercity and commuter seen as almost equally important to doing business in the UK
- With a capacity crunch already looming on a number of lines, 90% of businesses see increasing capacity as a priority
- 55% of firms support HS2 to help tackle the capacity crunch, with 92% reporting their support would be boosted by clearer sight of how the project sits within a longer-term plan for UK rail

### Whether cross-country or commuter, businesses rely on the entire rail network for success

Recent decades have seen significant growth in passenger numbers on the UK's railways. Since the 1990s, the number of journeys taken has almost doubled, with journeys per person growing faster in the UK than in France, Germany or the Netherlands.<sup>12</sup> The results of this survey demonstrate that rail is now a critical component of success for businesses, with 81% of firms reporting that one of either intercity, commuter or freight rail plays a crucial or important role in their business operations.

Broken down further, the results demonstrate the range of key functions the railways provide to UK firms. **Exhibit 10** shows that intercity rail is crucial or beneficial to 81% of businesses, while not far behind, 71% see commuter rail as similarly important. This is perhaps no surprise when businesses rely upon these routes to ensure the UK's brightest and best talent can reach them. And freight is now crucial or important to almost half of UK transportation companies, highlighting how the rail network not only keeps our people on the move, but also the goods we rely upon to keep our economy functioning.

Exhibit 10 The importance of rail to UK businesses



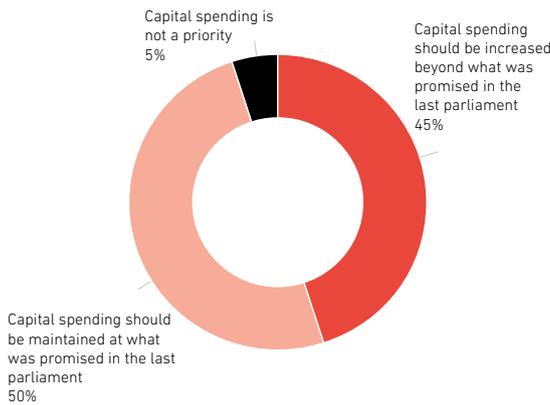
# 81%

of firms say rail is either crucial or important to their businesses

### Despite ambitious plans, businesses in many parts of the UK see the need for more investment

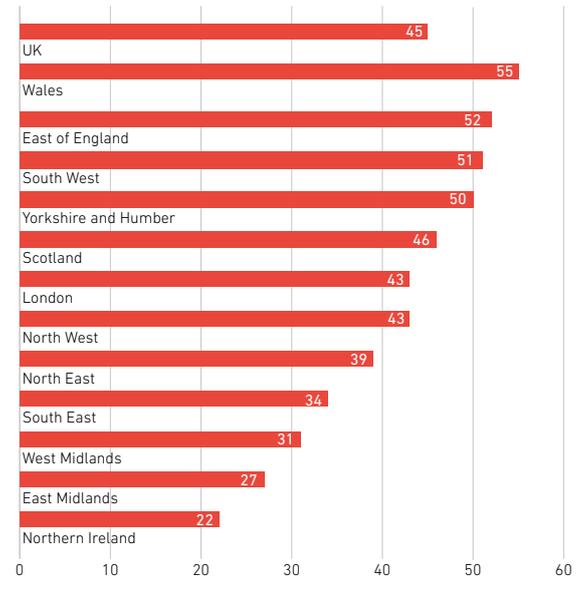
The importance of rail to business is reflected in the number of respondents that report they would like to see investment in the network either maintained or increased. 95% of firms say they would like to see, at a minimum, the delivery of the upgrades that were promised over the course of the last parliament. With a £38bn investment programme promised, this is no small feat in itself, but just under half of all respondents (45%) want government to go further and increase capital spending (**Exhibit 11**).

**Exhibit 11 The importance of capital spending on rail for businesses**



Breaking this down by region highlights how the picture is far from uniform across the country (**Exhibit 12**). While an average of 45% of businesses are calling for greater investment, in Yorkshire and Wales, this figure rises to 50% and 55% respectively. The findings may reflect overdue upgrades in both regions – whether the electrification of the Leeds-Manchester TransPennine route, or the long overdue improvements of the valley lines in South Wales.

**Exhibit 12 The importance of increased capital spending on rail by region (%)**

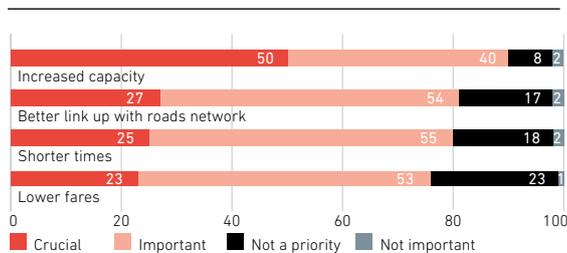


Yet as the 'pausing' of upgrades to the TransPennine route, alongside the East Midland Mainline showed, there are major challenges in just delivering on existing commitments. With 95% of firms keen to see delivery on what has already been promised, it is important that Network Rail is properly resourced and fit for purpose. This makes the Shaw Review on the future of Network Rail an important first step to meeting our ambitious goals for the network.<sup>13</sup>

### The risk of a railway capacity crunch tops business concerns

When it comes to improvements that businesses want to see, it is clear that capacity tops the list of concerns (**Exhibit 13**), with 50% of businesses saying improving capacity is crucial – almost double the next highest priority. Businesses need a network able to cope with future growth, providing a robust and reliable means of getting staff from A to B – whether across the country to that one-off pitch for new business, or simply to ensure that employees are able to arrive at work on time and relaxed.

**Exhibit 13 Business priorities for rail**



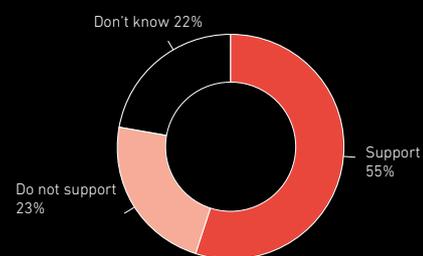
With UK passengers expected to make 400 million more journeys a year by 2019-2020, capacity increases are essential. Many key national rail lines are due to reach full capacity in the medium term, including the West Coast Mainline, the Southern line to Brighton and the Great Western line to Wales, impacting not only on reliability, but also on productivity as 'standing room only' becomes the new normal. Boosting capacity will depend on delivering many of the promised upgrades made by the last parliament, including delivery of HS2 (**BOX B**).

### BOX B

#### HS2 is crucial, but it must be clearer how this complements other investments

The case for HS2 has had a chequered history. Originally seen as an investment based on journey times, the more recent debate has rightly focused on capacity, recognising its ability to double the number of trains per hour on the West Coast Mainline. The result is that the majority of businesses support HS2, as shown in **Exhibit 14**.

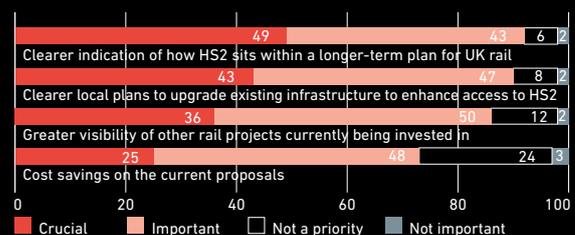
**Exhibit 14 Business support for HS2**



A quarter of businesses however are still to make their minds up about HS2, and this suggests there is still more to do to explain the case for this investment. Government has sold the project overseas, highlighted by the chancellor's decision to announce the opening of procurement in China in September 2015, however the evidence suggests more still needs to be done at home.

Asked what would bolster the case back home, businesses say that overwhelmingly there is a need for government to be much clearer about how HS2 sits within the national long-term rail strategy, with greater visibility of the other rail projects that are currently receiving investment (**Exhibit 15**). This suggests that it must be clear that HS2 is not an alternative to other rail upgrades, but one highly important element of an overall national rail strategy.

**Exhibit 15 Factors to improve business support for HS2**



**ROADS:** Invest in the ‘whole journey’ to boost the resilience of our road network

- Firms place improvements to the local road network as important as improvements to motorways, with 89% of businesses seeing investment as crucial or beneficial
- With a £15bn Road Investment Strategy promised for this parliament, 96% of businesses want to see capital spending commitments delivered...
- ...however 56% of firms want to see further increases in investment – a figure that rises in the devolved nations
- To boost investment, almost three-quarters (72%) are open to the idea of road charging as a way of building on the creation of the Roads Fund announced in the 2015 Budget

**Invest in national and local road networks – it’s not either/or**

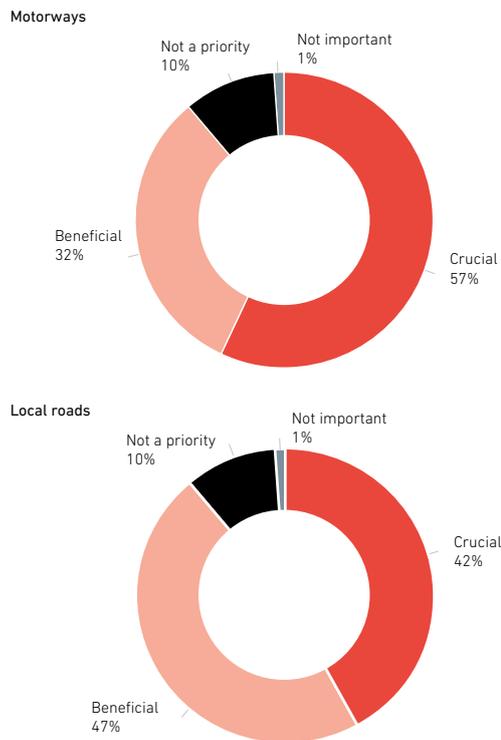
With roughly two-thirds of all journeys taking place by road, the state of the road network is one of the key indicators of the health of the UK’s infrastructure. The signs are not good however, and it is clear that additional investment is needed. Of the firms surveyed, 96% report that they are either ‘concerned’ or ‘very concerned’ about congestion on the road network – unsurprising given the cost of congestion to the economy is estimated at £8bn each year.<sup>14</sup>

96%

of firms are concerned or very concerned about congestion on the road network

The importance of the Strategic Road Network (SRN) to business cannot be underplayed. With 89% of businesses seeing investment in the UK’s motorway network as either crucial or beneficial to their business prospects, the justification for the £15bn Road Investment Strategy created in the last parliament is clear (**Exhibit 16**). Yet the results of this survey indicate that local roads are also crucial or important, with 89% of UK businesses using them to meet their needs, and 42% recognising them as crucial to their operations.

**Exhibit 16** The importance of roads to UK business



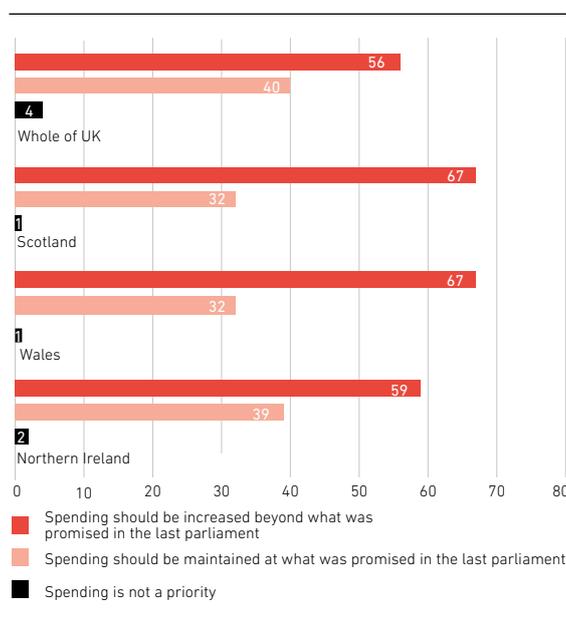
This finding is an important one, given underinvestment in the local road network. In the coming six years, the network is due to receive just £31,000 of investment per mile, compared with £1.4m per mile for the SRN.<sup>15</sup> With journeys starting and finishing on local roads, underinvestment risks creating bottlenecks that undermine the benefits of investment in our strategic roads.

### With further investment critical, business is open-minded on the future of road funding

Yet business is clear that this is not a case of simply rebalancing spending between the SRN and local roads. Given the importance of both networks to business, as a baseline, 96% expect to see the current spending plans honoured in full, but more than this, over half expect to see investment increased beyond what was committed in the last parliament – with these calls even louder among the devolved nations, where 60-70% of firms want to see spending increased (**Exhibit 17**).

This is perhaps unsurprising, given the legacy of underinvestment that led to a £8bn black hole in funding for the SRN alone.<sup>16</sup> While the 2015 Summer Budget<sup>17</sup> saw changes to the way funding works, reforming Vehicle Exercise Duty (VED) and creating a Roads Fund to stabilise revenue streams, with road usage predicted to increase over the longer term, it is critical that we not only halt the decline in roads funding, but reverse it.

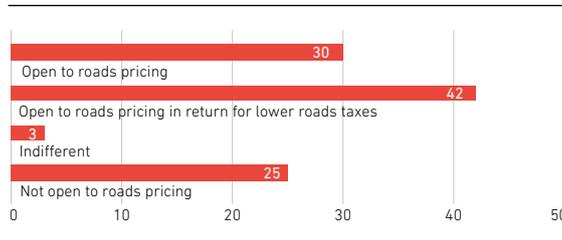
**Exhibit 17 The importance of capital spending for roads to businesses (%)**



“...as a baseline, 96% of businesses expect to see the current spending plans honoured in full, but more than this, over half expect to see investment increased beyond what was committed in the last parliament”

Businesses are receptive to new ways of funding the UK's road network if it leads to greater investment. Over 70% of firms are open to either road pricing or road pricing in place of road taxation as a way of funding the network, with just 25% opposed to the idea (**Exhibit 18**). There are a number of different ways of doing this – from tolling to a regulated asset base approach – but the majority of firms are clear: government must enter the debate and engage with users.

**Exhibit 18 Business opinion on roads pricing (%)**



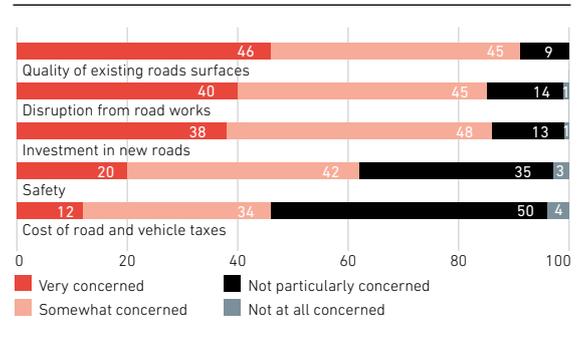
72%

of firms are open to some form of road pricing to boost investment in the road network

**It's not just about new roads – maintenance is mission-critical to a better road network**

Moreover, delivering upgrades in the road network is not simply a case of building new capacity. In fact the biggest concern when it comes to roads is the poor quality of current road surfaces, followed by disruption from road works and then investment in new roads. All score highly however, with over 80% of firms either very concerned or somewhat concerned (**Exhibit 19**).

**Exhibit 19 Factors within UK roads causing concern for business**



There are a number of critical pinch points where boosting capacity urgently requires attention to unlock regional growth, including upgrades to key routes such as the A303 in the South West and the A1 north of Newcastle. But businesses are clear that this must not come at the expense of maintaining the current network. Spending on maintenance also makes economic sense, with evidence suggesting that cuts constitute a false economy; every £1m invested saving £2.2m in future costs.<sup>18</sup> It is essential therefore that maintenance remains a consistent key component of any long-term road funding strategy.

**AVIATION:** The UK needs a new runway to boost connectivity to emerging markets

- While 85% of firms are satisfied with air links to EU markets, just 45% say our emerging market connections are fit for purpose, while over a third (39%) see domestic links as problematic
- 41% of all UK firms say failure to tackle the capacity crunch in the South East is already impacting investment decisions...
- ...and so 91% urge government to deliver on the Airports Commission’s recommendation
- Yet with 78% of businesses also prioritising improved ground access to airports across the UK, to maximise air links, our aviation strategy cannot afford to focus on the South East alone

**UK businesses need air links to all corners of the globe to succeed**

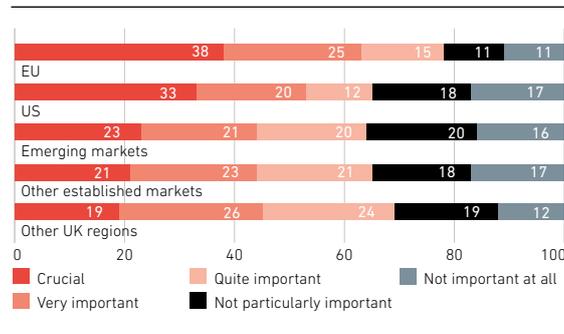
The importance of aviation is again reflected in this survey, with some 92% of businesses classifying air links to one or more market as either crucial or important to their operations.

For the UK’s future export performance, it is encouraging that so many businesses see the provision of air links as directly relevant to their operations. Equally pleasing is the breakdown of where businesses want to go (Exhibit 20). The data illustrates that almost two-thirds (64%) of firms see emerging markets as either crucial or important – 1% behind the US, and ahead of other established markets.

92%

of firms that say flights to one or more markets are crucial or important

**Exhibit 20 The importance of air links for UK business**



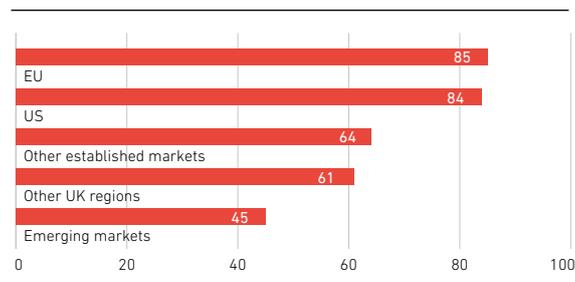
2/3rds

of companies see links to emerging markets as either crucial or important to their business

**Weak connectivity makes action on new runway capacity critical**

The UK remains a highly competitive location for its air links and this is borne out in the data – particularly when it comes to links with the EU and North America (Exhibit 21). Yet the UK is much less impressive when it comes to emerging markets and domestic links, both of which are ranked lowest by businesses. Over half of all firms are dissatisfied with our links to emerging markets, and almost 40% of firms are dissatisfied with air links within the UK.

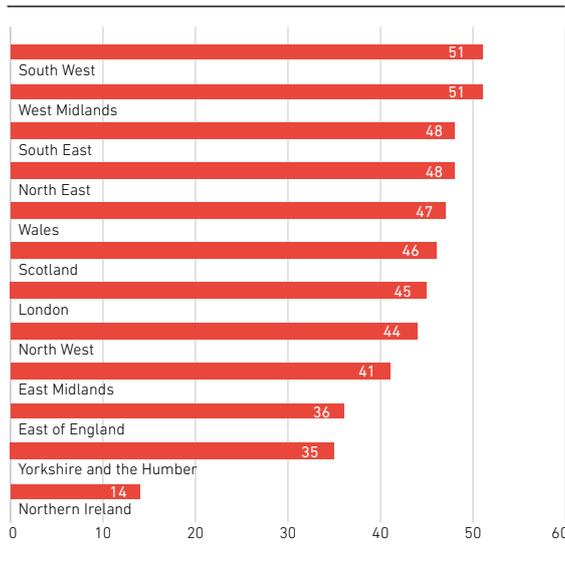
**Exhibit 21 Business satisfaction with UK air links (%)**



Underlying the UK's weak emerging market connectivity is the increasing constraints on airport capacity in the South East, especially with the UK's hub airport at Heathrow full. Research indicates that hub airports serve on average three times as many emerging market destinations as non-hubs, with twice the daily frequency, making a hub with spare capacity a key asset.<sup>19</sup> This explains why in China alone, the UK's EU rivals with spare hub capacity now have access to Xiamen, Wuhan, Shenyang, Hangzhou and Nanjing – cities with an urban population of over 38 million. In terms of population size, this is the equivalent of the UK not trading with Canada.<sup>20</sup> The trade mission by George Osborne in 2015, which championed Chinese investment in UK infrastructure, highlights the need for the UK to catch up.

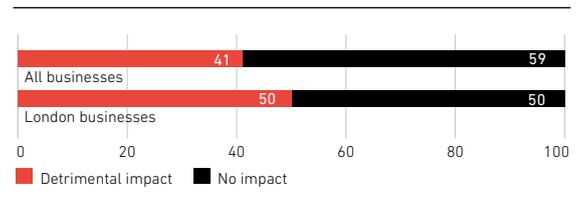
Yet this may also partially explain the low score given to domestic connections. As Heathrow has become full, the number of domestic routes has declined, from 18 in 1990 to just seven today.<sup>21</sup> Broken down by region, dissatisfaction levels are particularly high in the North East, West Midlands, and also the South West, where links to airports such as Newquay have been lost (**Exhibit 22**).

**Exhibit 22 Regional dissatisfaction with UK domestic air links (%)**



Overall, these results put new airport capacity high on the agenda for businesses across the UK, and the message is clear: the cost to the UK economy is already mounting. Over 40% of UK businesses report they have already been directly impacted by the lack of progress on new runway capacity (**Exhibit 23**), and this rises to 50% in the case of firms primarily based in London. This is perhaps not surprising when research indicates that over the period it could take to build a new runway, the cost of lost connectivity with the BRIC markets alone will be as much as £31bn.<sup>22</sup> Business is now clear: 91% of firms across the UK support delivery of new capacity following the recommendation of the Airports Commission, with half classifying this action as crucial.

**Exhibit 23 The impact on business from delays to a new runway**

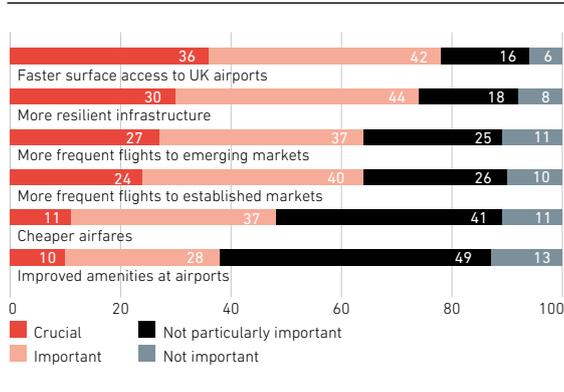


**Boosting ground links to airports across the UK will drive demand growth**

Yet if the UK is to maximise its international connectivity, we cannot afford to pursue a strategy that focuses on capacity in the South East alone. With a high-quality network of airports across the country, complementary action must help boost demand across the UK, making routes like Manchester Airport's link to Hong Kong or Newcastle Airport's link to Dubai less the exceptions, and more the rule.

Business clearly sees faster ground access as a key factor in driving growth with four-fifths wanting to see improvements to the way they get to and from airports (**Exhibit 24**).

**Exhibit 24 The improvements sought by businesses for their flights to and from the UK**



Also ranking highly is more resilient infrastructure, with three-quarters of firms highlighting the damaging impact that delays can have on their business. This is just above frequency of flights to both emerging and established markets, demonstrating the importance of flexibility to the way businesses make use of capacity.

While not top of the list, almost half (48%) of firms see cheaper airfares as either a crucial or important factor impacting on their travel decisions. This should come as no surprise given the UK's lack of international competitiveness when it comes to tax on air travel. The Band B long-haul rate is not just the least competitive in the EU, but is more than twice the level of the EU's second least competitive country, Germany. This offers support for analysis that suggests losses in tax from a reduction in Air Passenger Duty (APD) would be offset by increasing revenues from exports and trade.<sup>23</sup>

91%

of UK firms see a new runway in the South East as either crucial or important

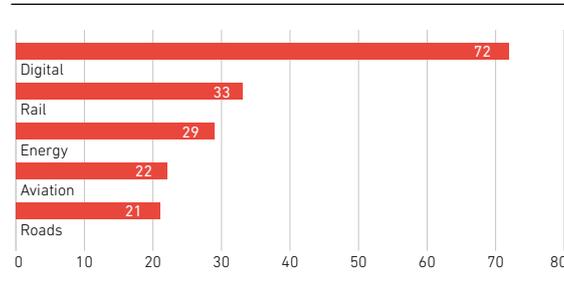
**DIGITAL:** As businesses digitise their operations, resilience is the key

- While 72% of businesses report improvements in the past five years to digital networks, levels of satisfaction have not increased – with firms relying ever more on faster, more reliable connections to do business
- Reliability is the main business priority, with more than four out of five businesses seeing more reliable fixed and mobile connections as essential to future business operations
- Yet improved speed is of the essence too, with two-thirds highlighting the need to maintain ambitious investment into the future – rising to 78% among SMEs

**Despite rapid progress, the majority of businesses require even better digital connectivity**

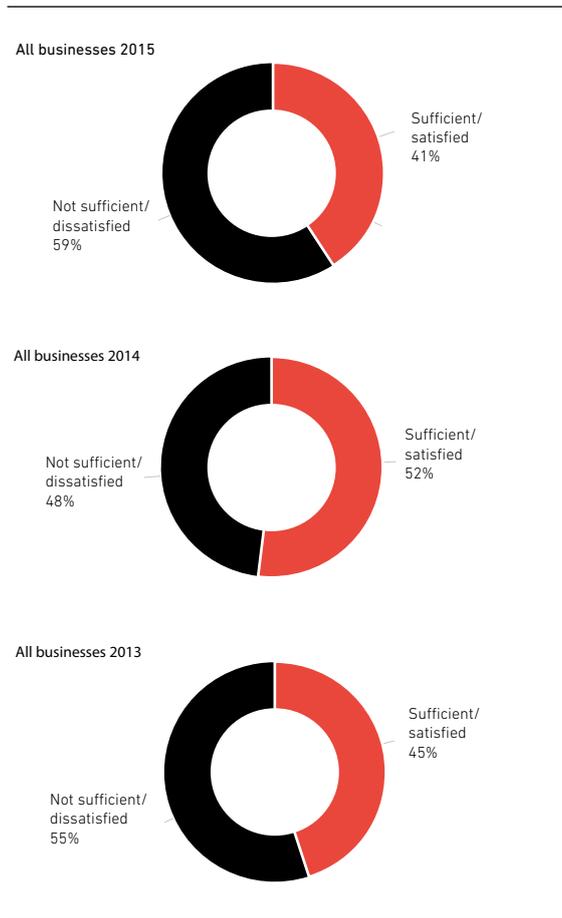
When it comes to perceived improvement in the last five years, digital infrastructure has led the way. Almost three-quarters of all businesses find their digital services to have improved over this period. This compares to roughly a third of businesses saying there has been improvement in the other key sectors (**Exhibit 25**).

**Exhibit 25 Percentage of businesses that have observed improvement over the past five years**



While this is a very positive story for UK infrastructure, it remains in stark contrast with the number of firms that are happy with the quality of their digital networks. As **Exhibit 26** shows, 59% of businesses feel the current quality of UK networks is still insufficient for their needs. Comparing this with previous years, it is evident that despite improvements, ever greater demand for digital services is leading to an increased number of businesses that are dissatisfied.

**Exhibit 26 Business satisfaction with quality of digital networks**

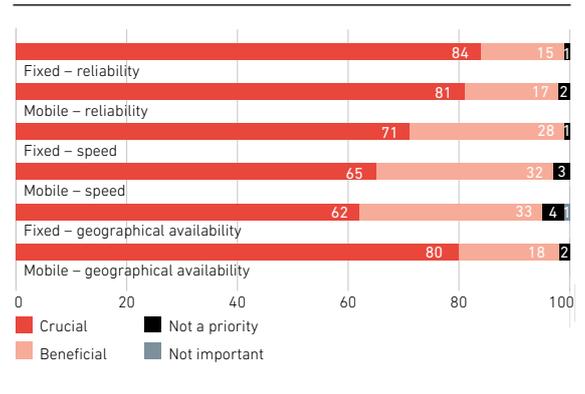


Despite continued investment in superfast fibre broadband and the arrival of 4G, it would appear that even as the UK improves, the rapid digitisation of businesses means the goalposts are shifting – pushing the boundaries of what is required.

**Reliable networks are mission-critical for all businesses...**

Delving deeper into digital connectivity delivers a clear picture. Whether fixed line or mobile, the priority is reliability, with over 80% of firms citing investment in greater reliability as crucial for their business (**Exhibit 27**). Geographical availability of mobile connectivity scores similarly, however, it speaks to the same point: the importance of connectivity, wherever and whenever it is needed.

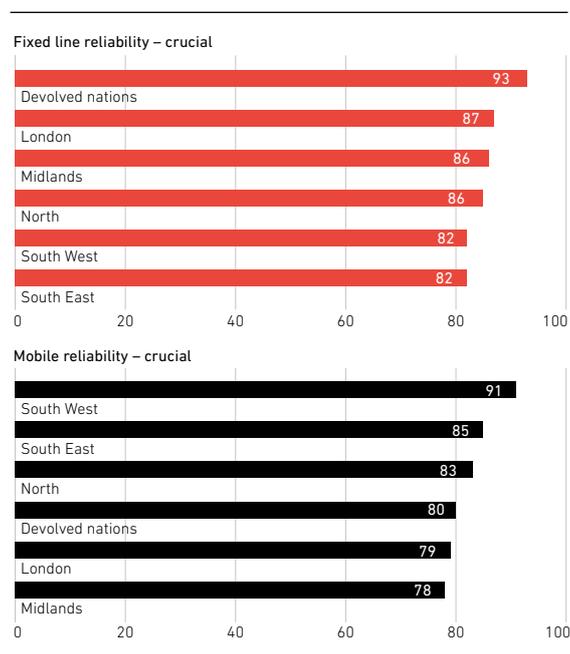
**Exhibit 27 Business priorities for future investment in digital**



That 84% and 81% of firms see more reliable fixed line and mobile connectivity as essential underlines the extent to which digital connectivity is now an essential tool in a wide range of UK sectors. From creative industries to construction, digital connectivity is embedded in the way businesses operate. This means that whether it's a dropped call at a critical moment in a negotiation, or the inability to gather data from contractors on the road, poor reliability has a major impact.

Breaking reliability down by region, it is notable that those in the devolved nations rank investment in fixed line as especially important, with 93% of firms seeing this as crucial, whereas for the South West, mobile reliability ranks particularly highly, ten percentage points above the national average (**Exhibit 28**).

**Exhibit 28 The importance of investment in reliability by region (%)**

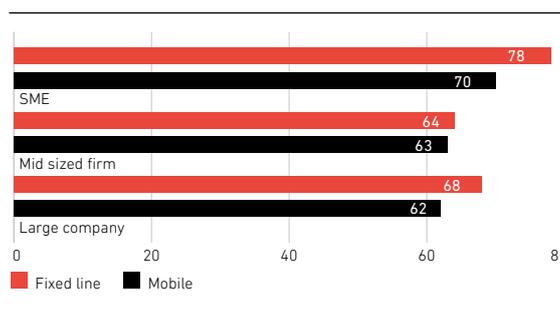


**...and as the goalposts shift, it is essential we maintain our ambitions on speed – particularly for the UK’s small firms**

As the demands placed on our digital networks grow, it is essential that the UK does not become complacent – maintaining the pace of investment in the next generation of mobile network. While reliability may be at the top of the list today, any hiatus in roll-out of new technologies immediately places UK firms at a disadvantage. As shown in **Exhibit 27**, whether fixed line or mobile, investment in speed of connection remains a crucial factor for around two-thirds of all businesses. Interestingly however, the need for speed is felt most keenly by SMEs, with these firms ranking both fixed line and mobile speed 8-10 percentage

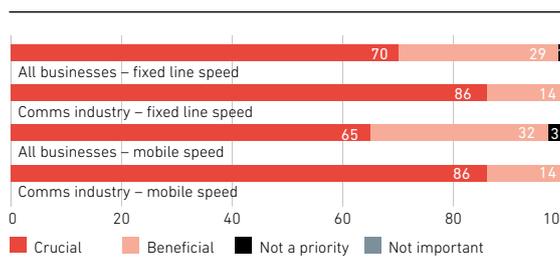
points higher than large firms (**Exhibit 29**), something that may reflect the large number of small start-up firms in the UK’s creative and tech sectors that rely upon fast connections for their day-to-day operations.

**Exhibit 29 The importance of speed for SMEs (%)**



The importance of speed is also reflected by businesses in the information and communications sector, with an extra fifth of firms in this group seeing speed as a crucial factor (**Exhibit 30**). This sector can in many ways be seen as a bellwether for the future – including as it does, not only firms responsible for delivering next generation networks to meet customer demands, but also heavy users of these networks to manage large amounts of data.

**Exhibit 30 The importance of speed for communications industry**



It is crucial that the UK does not become complacent about the future of our digital infrastructure. We have already slipped from front ranks to sixth position for connection speeds, as other countries, such as South Korea, have seen rich reward for their investments.<sup>24</sup>

## Environment for delivery

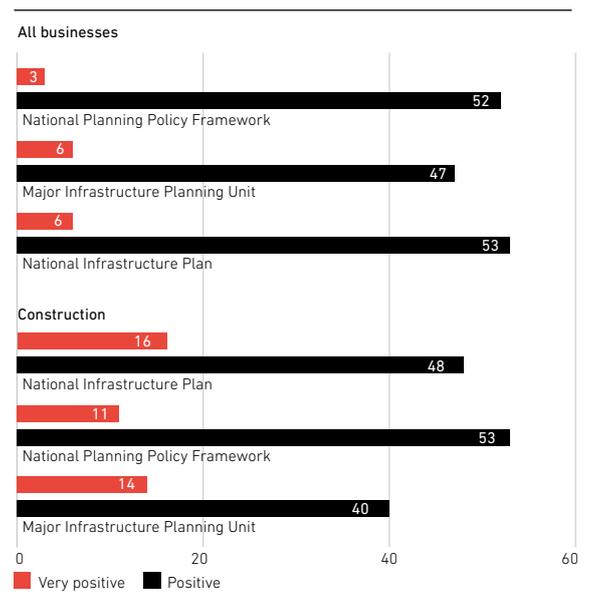
**PLANNING:** Local planning needs to be accelerated, and brought into line with national policy: business is prepared to contribute

- Pro-growth planning reforms have had a positive impact on delivery of national infrastructure projects, with a majority of the construction firms on the ground viewing them as having had a positive impact
- Yet with 89% of businesses concerned about the link between local planning decisions and national priorities, the focus is on delivery at the local level
- 82% of firms are concerned that inadequate resourcing is holding back growth-generating projects...
- ...and with costs incurred as a result of delay, 70% of businesses are now prepared to pay higher planning fees if it results in quicker decision-making

### Reforms to the national planning system have been welcome...

The last parliament saw continued progress on planning reform, through the introduction of a number of important initiatives aimed at ensuring a more strategic approach. As **Exhibit 31** shows, businesses have been broadly supportive, with particularly strong support in the construction sector. The Major Infrastructure Planning Unit at the Planning Inspectorate has in particular been praised for its set timeframes and the level of pre-consultation: this has helped to provide enhanced certainty for project developers on the state of progress, and likelihood of approval.

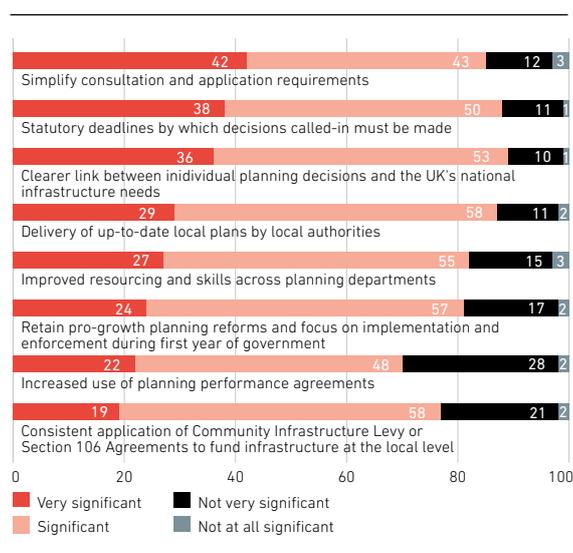
Exhibit 31 Business support for planning reforms (%)



### ...but there remains a frustrating disconnect at the local level

While the picture at the national level is promising, when asked what more could be done to improve planning, respondents highlight a number of concerns with planning at the sub-national level. While simplification of red tape tops the list, a large proportion of responses focus on the need to ensure local growth reinforces rather than opposes national priorities (**Exhibit 32**) – something that may reflect concerns that local authorities are not doing enough to facilitate infrastructure upgrades in their patch.

**Exhibit 32 Infrastructure provider priorities to tackle delays and costs in the planning system**



Decisions made at the local level have a significant impact on the delivery of infrastructure – whether it is delivery of up-to-date local plans, quick decisions or taking advantage of tools such as the Community Infrastructure Levy to finance regional infrastructure. The majority of businesses highlight in particular, both the need for a clearer link between specific national policies and individual planning applications, and delivery of local up-to-date plans as either very significant or significant: 89% and 87% respectively. This made the announcement of the government's Productivity Plan in July 2015<sup>25</sup> particularly welcome, containing as it did a number of important steps aimed at ensuring local planning decisions are streamlined.

Yet delays to local infrastructure do not always originate from local government. It is notable that 88% of businesses see call-ins of local planning applications by central government as another key barrier and would like to see statutory deadlines introduced as they have been for national projects. The impact this barrier has had in recent years on delivery of local infrastructure is illustrated well in the case of Energy from Waste projects, as flagged through the monitoring of the National Infrastructure Plan (**BOX C**).

### BOX C

#### Norfolk Energy from Waste

As part of a long-term strategy on how to deal with its waste, and to encourage new sources of renewable energy, Norfolk County Council awarded a contract to Cory Environmental and Wheelabrator in 2012 to build an Energy from Waste plant outside King's Lynn.

The project, capable of burning 275,000 tonnes of waste per year, was granted planning permission at the local level, but was subsequently called in by the Secretary of State for Communities and Local Government and made the subject of a public inquiry.

By early 2014, with the decision indefinitely delayed by the Department of Communities and Local Government, Norfolk County Council was forced to reconsider the project's future and eventually withdrew its support.

The decision to call in this project was particularly disappointing given the support of the local authority. Government has continually resisted lowering the Energy from Waste thresholds for the Nationally Significant Infrastructure Planning regime, on the grounds that local authorities must be in control of projects such as these. The decision to then remove control from the local authority in this case highlights the lack of consistency between national policy positions and individual applications.

**With resources constrained, businesses are prepared to pay higher fees to speed up applications**

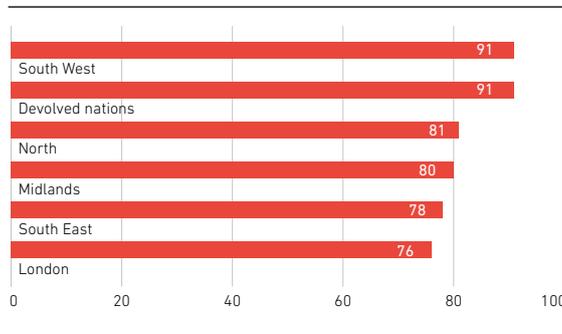
As **Exhibit 32** shows there are a range of factors that could bolster business confidence in both national policy and the ability of local authorities to handle their application in line with the UK’s wider priorities. Ultimately however, many of these measures are contingent on the level of resourcing and skills which are present within planning authorities – something that also ranks highly with 82% of infrastructure providers in **Exhibit 32**. With local planning departments playing a key role in ensuring that growth-stimulating and job-creating projects get the go-ahead, there are concerns about further budget constraints due to the pressure to reduce current expenditure. This is the case for businesses across the UK, yet breaking this down by region demonstrates particular concern among firms in the South West and the devolved nations (**Exhibit 33**).

Businesses recognise the fiscal pressures on government, however they also see the risks of delays to major projects – costs that impact not only on firms delivering these projects, but also on local growth and jobs. Such is the concern, that 70% of businesses are prepared to consider paying more in planning fees, rising to 75% of construction firms, if it leads to significant improvement in performance, with quicker decisions, more consistently applied.

70%

of businesses would be prepared to pay more in planning fees in return for quicker decisions

**Exhibit 33 Support for improved resourcing and skills by region (%)**

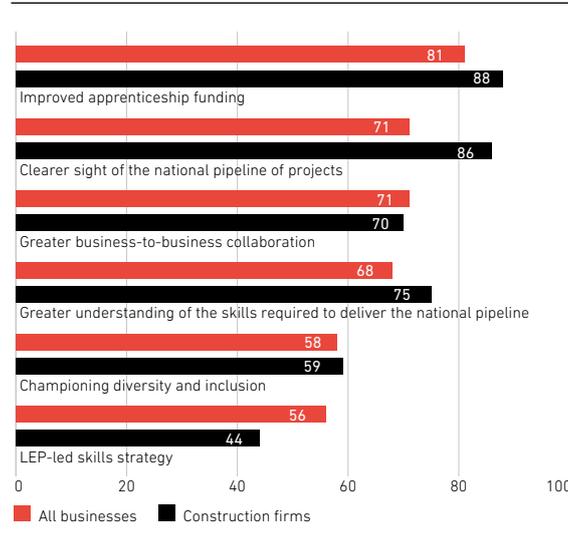


*The Major Infrastructure Planning Unit has been praised for its set timeframes and the level of pre-consultation*

**SKILLS:** Provide longer-term clarity to help infrastructure providers lead the way

- With 81% of businesses seeing a key role for government in helping businesses to fund apprenticeships, there is disappointment with plans for the new Apprenticeship Levy...
- ...something particularly felt by the construction firms delivering our infrastructure, where this rises to 88%, with 58% seeing funding as very significant to their ability to deliver
- In the absence of government support, 86% of construction firms see greater clarity of the project pipeline as essential if they are to fill the gap

Exhibit 34 Business priorities to boost skills within their workforce (5)



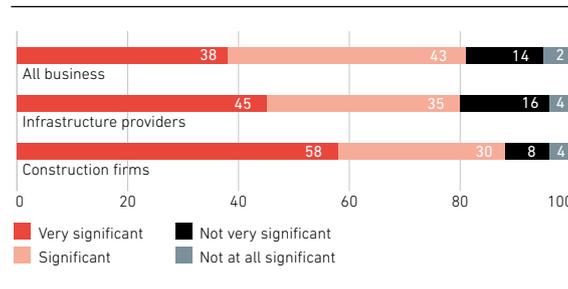
**With apprenticeships a critical part of infrastructure delivery, the apprenticeship levy has come as a disappointment to businesses**

With the UK currently delivering some of the largest, most ambitious infrastructure projects in Europe, it is more important than ever that the right skills are available if we are to avoid delay, keep costs under control and maximise construction benefits here at home. Yet delivery of these projects often serves to highlight strains on our skills base. Crossrail is the largest construction project in the EU, yet it has depended upon a workforce which is nearing retirement and the industry is struggling to attract new talent. In this context, urgent action is needed to upskill the UK's workforce.

Asked what could be done to boost skills within the workforce, business is clear – apprenticeships are essential, with some 81% of firms arguing that improved apprenticeship funding from government would be the most important factor in addressing the skills challenge (Exhibit 34).

What's more, the importance of apprenticeships increases among firms in the construction sector – those responsible for the physical delivery of the upgrades the UK requires in the coming years (Exhibit 35). Here, 88% of firms see apprenticeship funding as either significant or very significant, with over half seeing it as very significant.

Exhibit 35 The importance of funding for apprenticeships



Apprenticeships play a vital part in addressing this skills challenge, underlining why business was so critical of the government’s Summer Budget announcement of an apprenticeship levy on large employers to fund its target of 3 million new apprenticeships. The levy, instead of supporting businesses, will now add a significant extra cost to large employers across the UK – many of whom are already investing in the skills of their workforce and will now be faced with extra cost and bureaucracy.

**If businesses are to fill the gap, longer-term clarity of the UK’s future pipeline is essential**

Yet as shown by **Exhibit 34**, businesses see a range of actions besides funding that will also help deliver the skills the UK needs. 71% of all firms reflected the need for businesses to collaborate more closely with one another. Furthermore, over half of businesses saw a Local Enterprise Partnership-led skills strategy and greater diversity and inclusion as critical actions for businesses to take to address the skills gap.

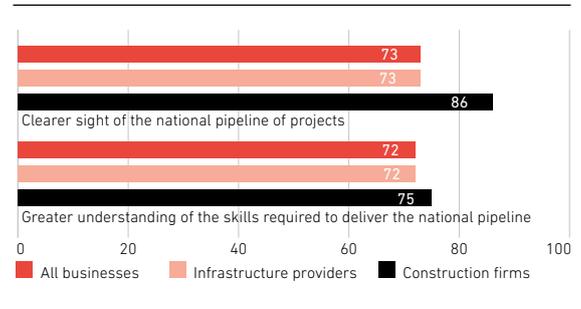
71%

of firms see greater business-to-business collaboration as key to boosting skills

There are already good examples of business collaboration within wider industry, for example businesses working with their supply chains to tackle issues upstream. Some providers, such as the car manufacturer Toyota, have led the way with a ‘co-operative model’ of apprenticeships from within its suppliers and local businesses. Similarly in the digital market, Microsoft have supported 7,000 apprenticeships in the last five years, all but a handful of which come from among Microsoft’s 30,000 partners and vendors.

In the absence of funding however, there is a role for government to play too – especially for firms charged with delivery of infrastructure (**Exhibit 36**). Greater understanding of the skills required to deliver the national pipeline scores highly, with three-quarters of construction firms seeing this as critical. Scoring even higher however is clearer sight of the national pipeline of projects, with 86% of construction firms saying this is a key factor in allowing them to upscale skills in the workforce.

**Exhibit 36 Percentage of firms supportive of clearer pipeline and sight of skills**



This is something that the UK is starting to make progress on. The government’s National Infrastructure Plan for Skills<sup>26</sup> is a welcome development that should help translate the infrastructure pipeline into a tangible recruitment strategy. In addition, the five-year Road Investment Strategy<sup>27</sup> directly addresses the history of stop-start funding that has led to skills seeping out of the UK, especially in the aftermath of the sudden cuts in capital spending in 2010.

## FINANCING UK INFRASTRUCTURE: As the market evolves, government's role must adapt

- With the market for investment improving, investors and providers see the primary role of government as removing barriers to the flow of private finance
- The need for faster, more politically robust decisions tops the list among nearly all infrastructure providers (96%)...
- ...while 78% of investors are concerned that the risk of future policy change is holding back investment
- More than two-thirds of investors and providers still see a need for credit enhancement and subordinated funding, suggesting a continued role for innovations like the Green Investment Bank

### Government support had a significant impact on infrastructure during the financial crisis...

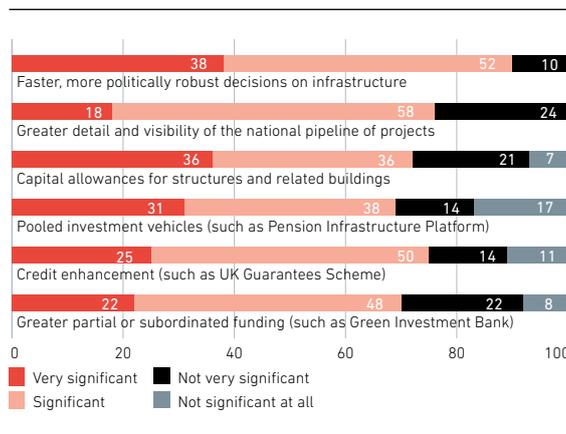
In the aftermath of the financial crisis, banks shored up their balance sheets, leading to concerns as to how the UK would deliver the £411bn pipeline of projects within the National Infrastructure Plan<sup>28</sup> – 70% of which require private finance. In response, during the last parliament, government oversaw a number of important initiatives aimed at supporting projects, including the Green Investment Bank (GIB), and the UK Guarantees Scheme (UKGS). These measures were designed to attract a broader range of investors, reduce the cost of debt and mitigate construction risk, and gained considerable support from businesses in the 2014 survey – particularly the UKGS, which received backing from 79% of infrastructure providers.

Such intervention from government is now seen to be having a positive impact on the state of the market. The schemes have helped to secure progress on a number of crucial national infrastructure projects, including Hinkley Point C, the Mersey Gateway Bridge and investments in offshore wind, including the Rampion and Sheringham offshore wind farms.

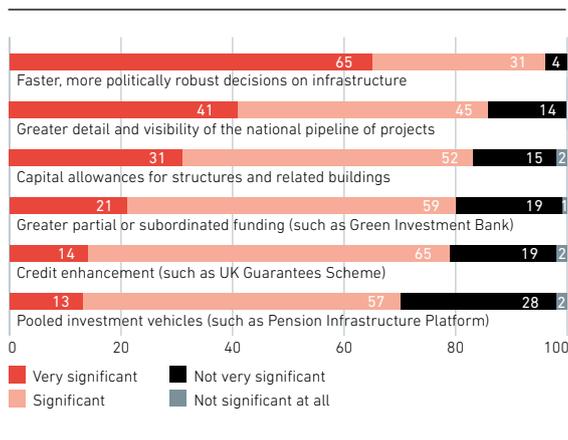
### ...but as the market recovers, investors are focused on political uncertainty

It is clear from asking investors and infrastructure providers that there is still a role for government to play in facilitating finance directly (**Exhibit 37** and **Exhibit 38**, page 32). More than two-thirds of both groups feel that credit enhancement such as the UKGS, partial or subordinated funding such as the GIB or indeed pooled investment vehicles such as the Pension Infrastructure Platform (PIP) do still have a role to play. This reflects the risks that still exist in the infrastructure market, particularly when it comes to large-scale infrastructure such as new nuclear or energy projects which require considerable levels of innovation. The importance of these measures to business would support an extension of the UKGS in some form following its current 2016 end-date. It also poses government with the challenge of ensuring a privatised GIB is capable of delivering against its *raison d'être*.

**Exhibit 37 Significance of government action on the state of the market (investors)**



**Exhibit 38 Significance of government financing instruments on the state of the market (infrastructure providers)**



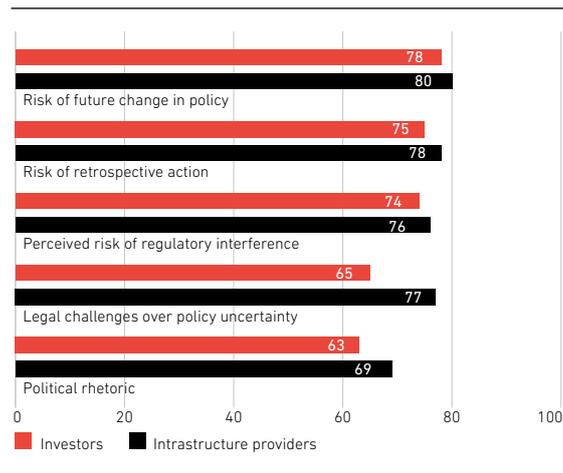
Yet it is notable that while seen as important, the above financing measures come out bottom of the list. Much higher up are less direct interventions in the market that are designed to create a competitive business environment for private investment – particularly focusing on political certainty and visibility of pipeline. 96% of infrastructure providers see faster, more politically robust decisions on infrastructure as very significant or significant in boosting finance, while for investors, 76% want greater visibility of investment opportunities.

This balance of priorities reflects the change in market conditions, with growing levels of investor appetite in infrastructure enabling infrastructure providers to attract substantial amounts of private capital. This is illustrated well in the case of the £4.2bn Thames Tideway supersewer, one of the largest construction projects in Europe, which has attracted finance from a wide range of institutional investors, including pension funds.

**Policy change is perceived as the biggest political risk**

Delving further into concerns about political risk, it is clear that changes to the policy environment rank as the highest concern, with almost four-fifths (78%) of infrastructure investors seeing the risk of future change in policy as fundamentally or significantly detrimental to project delivery. The risk of retrospective action and regulatory interference also score highly, with around three-quarters seeing both as detrimental. With the backdrop of the general election, the impact of political rhetoric also remains fresh in the minds of investors, with almost two-thirds (63%) concerned about its impact on delivery.

**Exhibit 39 The impact of political risk on infrastructure investment (%)**



Infrastructure providers know that nothing turns off the private investment tap quicker than unexpected changes to government policy – a theme very much reflected in the recent changes on renewable energy. The changes to the Renewables Obligation and scrapping of the Climate Change Levy exemption have significantly damaged investor confidence across the entire renewable market, through the mixed signals they have created. The decision by Drax in September 2015 to cease investment in carbon capture and storage is a prime example of the implications of recent policy changes and the impact they can have.

## DEVOLUTION: With the right leadership, business sees devolution as an opportunity

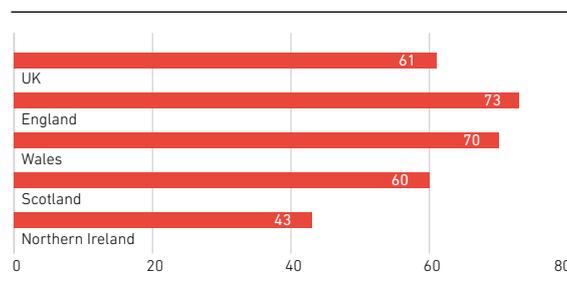
- 61% of UK businesses believe that devolution will improve the delivery of local infrastructure
- Support is particularly high in England (73%), and most businesses across the UK are in favour, with the exception of Northern Ireland (43%)
- The majority of firms say certainty of revenue (68%) and plans for strong local business leadership (65%) are essential for boosting confidence that devolution will deliver better infrastructure

### Most businesses in the UK see devolution as an opportunity to improve local infrastructure...

Devolution has emerged as one of the major shifts within UK politics, not just with regard to Scotland, Wales and Northern Ireland, but also in the English regions. Given the chancellor's personal ambitions for the Northern Powerhouse this trend looks set to continue over the course of this parliament.

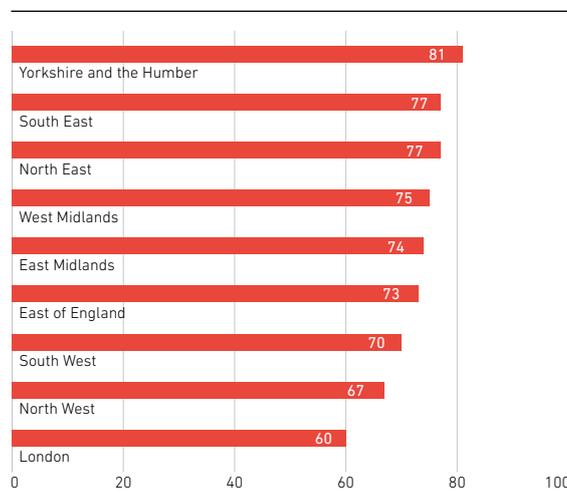
The good news is that 61% of UK businesses see greater devolution as an opportunity to improve local infrastructure. Broken down by nation, England is the most enthusiastic, with English regions averaging 73% in favour of devolution. The only exception is Northern Ireland, where the figure is lower at 43%, (**Exhibit 40**). Appetite for devolution is notably higher in England and Wales – by some ten or more percentage points – something that may simply reflect the appetite for devolution, but also the limited scope of devolved responsibility to date.

Exhibit 40 Business support for devolution across the devolved nations (%)



Considerable variance also exists in attitudes towards devolution within English regions (**Exhibit 41**). While all regions are broadly favourable, London comes out lowest, with 60% of firms in favour, compared to 81% in Yorkshire and Humber – again, potentially reflective of the fact that London has long held greater control over infrastructure spending in the capital.

Exhibit 41 Business support for devolution across the English regions (%)



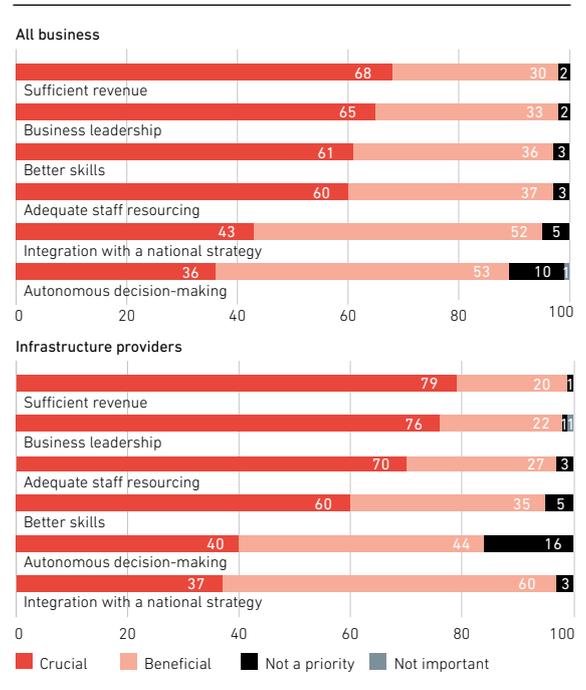
“ While all regions are broadly favourable of devolution, London comes out lowest, with 60% of firms in favour, compared to 81% in Yorkshire and Humber ”

**Leadership and capability are critical requirements for bringing more businesses on board**

Yet with almost a third of UK businesses in **Exhibit 40** reporting that they are unsure greater devolution would have a positive impact, it is clear that the case remains far from clear-cut. This is reinforced by the fact that while the North West is in the vanguard of devolution with the combined authority approach taken in Manchester, the region sees only average levels of support.

Asked what more could be done to bolster support for devolution, business places revenue and leadership at the top of the list – particularly among infrastructure providers (**Exhibit 42**). Sufficient revenue to deliver on devolved responsibilities ranks highest, reflecting concerns that devolution cannot be a substitute for adequate levels of investment in infrastructure. It is clear though that this is not just a matter of funding – business leadership at a local level, adequate staff resourcing and improved skills in local government are seen by many as almost just as important.

**Exhibit 42 Factors to improve the ability of local government to deliver infrastructure projects**



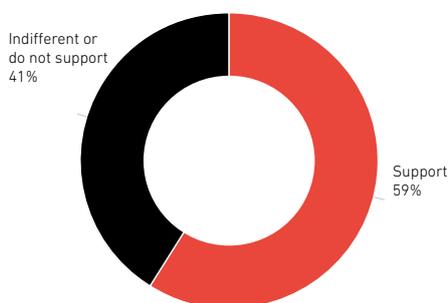
**TAKING DECISIONS:** Deliver a long-term strategy based on assessment of need

- As the National Infrastructure Plan continues to evolve, 98% of firms now want to see an evidence-based approach to how we take decisions
- Business backs the National Infrastructure Commission as announced in October 2015 – with 99% of infrastructure providers seeing the assessment of need as critical
- 92% of firms see greater engagement with communities impacted by infrastructure as essential, with 91% seeing better articulation of the local benefits of new infrastructure as key

**Business backs the creation of the National Infrastructure Commission**

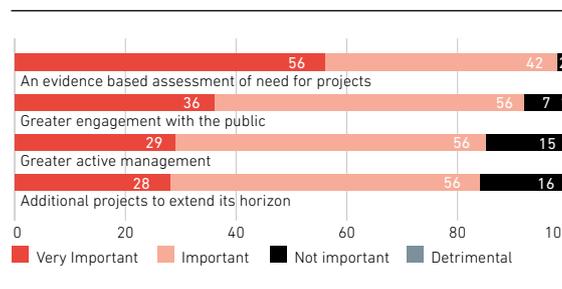
Businesses have by and large been supportive of many of the government’s infrastructure initiatives over the course of the last parliament – not least the creation of the National Infrastructure Plan, which 59% of all businesses see as having had a positive impact on infrastructure delivery.

**Exhibit 43 Level of support for National Infrastructure Plan**



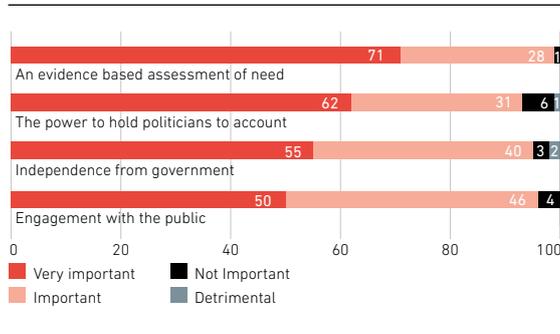
With the National Infrastructure Plan expected to continue evolving over the course of this parliament, respondents highlighted their priorities on how it could be further improved to ensure it remains at the centre of UK infrastructure policy (**Exhibit 44**). At the top of this list for infrastructure providers was an evidence-based assessment of need upon which to base the content of the plan. 98% of infrastructure providers feel this would make an important contribution to improving the plan, with 56% of them thinking it would make a very positive contribution. Also scoring particularly highly was the need for greater engagement with the public, with 92% of infrastructure providers citing improvement here as important, and 36% believing it to be very important.

**Exhibit 44 Infrastructure provider priorities to improve the National Infrastructure Plan**



The support for an assessment of need is unsurprising, given that this was seen by businesses to be the most essential benefit of Sir John Armit’s proposals for a National Infrastructure Commission.<sup>29</sup> The assessment of need is seen to have been a very important component by 71% of infrastructure providers in particular. In comparison 55% see the independence of the commission as a very important factor (**Exhibit 45**).

**Exhibit 45 Infrastructure provider priorities from the National Infrastructure Commission proposals**



In light of these findings the announcement by chancellor George Osborne that he would create a National Infrastructure Commission, to carry out an assessment of need at the start of each parliament, is hugely welcomed by business. The *CBI/URS infrastructure survey 2014*<sup>8</sup> found that 89% of firms were in favour of the idea. Lord Adonis, as chair, must now strive to ensure the work of the commission firmly guides our future pipeline of national infrastructure.

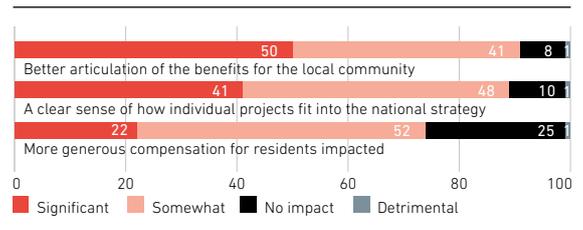
**Clearer articulation of the benefits of infrastructure is needed also to bring the public onside**

As **Exhibit 44** above shows, business feels greater engagement with the public would also help with the delivery of infrastructure.

Recognising that government and industry must improve the way they engage with the public, respondents to the survey were asked what would help to bring local communities and wider public opinion onside (**Exhibit 46**). 41% of businesses feel a clear sense of how individual projects fit into a national strategy would deliver a significant boost to the case for new infrastructure, demonstrating the importance of placing individual projects in context.

Scoring even higher however, is the need for better articulation of the local benefits brought about by a project – something in keeping with opinion polling conducted in 2013 by Ipsos Mori for the CBI,<sup>30</sup> in which members of the public said this was the biggest single factor they looked for in understanding the benefits of major infrastructure upgrades. With rationing between investments seen to be almost inevitable, stating the benefits which could be realised will be critical to winning confidence in the project as well as support.

**Exhibit 46 Actions which would assist businesses in their engagement with local residents**



## Conclusions and recommendations

*The 2015 CBI/AECOM infrastructure survey lays down a clear challenge for government: build on the foundations laid in the last parliament, and turn momentum into delivery.*

The results of this survey highlight ten actions which government must take with UK infrastructure, if this parliament is to be the one that makes a real difference.

	<b>ENERGY:</b> Government needs to come forward with a clear, consistent long-term plan that boosts confidence in security of supply
	<b>RAIL:</b> A vision for the future of the railways should be set out, putting HS2 in context of longer-term investments across the UK
	<b>ROADS:</b> Ensure that local roads funding is not neglected and explore new ways of boosting investment across the UK's network
	<b>AVIATION:</b> Deliver a new runway in the South East to boost the UK's links to emerging markets
	<b>DIGITAL:</b> Support digital providers in efforts to boost network reliability by removing barriers to investment in digital infrastructure
	<b>PLANNING:</b> Ensure that local planning decisions support the UK's national infrastructure ambitions
	<b>SKILLS:</b> Provide longer-term clarity of the future infrastructure pipeline to help construction firms lead the way in upskilling the workforce
	<b>FINANCING INFRASTRUCTURE:</b> As the market strengthens, focus on delivering greater political certainty to leverage greater private investment
	<b>DEVOLUTION:</b> Boost confidence by ensuring business leadership plays a key role in setting the agenda for local infrastructure
	<b>TAKING DECISIONS:</b> Ensure the UK's future pipeline is based on the National Infrastructure Commission's assessment of need

# Annex

## Respondents

The survey was conducted over a seven week period ending on 17th July 2015. Usable responses were received from 722 participants. Participants included investors, providers and users of UK infrastructure from across and outside CBI membership. Approximately one quarter of respondents identified primarily as a provider of infrastructure.

The respondents were largely senior executives of their respective companies: 30% were CEOs, with a further 45% managing directors or directors. Importantly, the survey captures business opinion from all sizes of businesses: while larger firms employing 500-4,999 employees constituted 27% of respondents, SMEs with 1-249 employees represented 44%.

In the analysis of results, responses were weighted according to the sectoral contribution to Gross Value Added based on the latest available Office for National Statistics estimates. **Exhibits 47** and **48** show the breakdown of respondents by sector and region respectively.

Exhibit 47 Respondent breakdown by sector

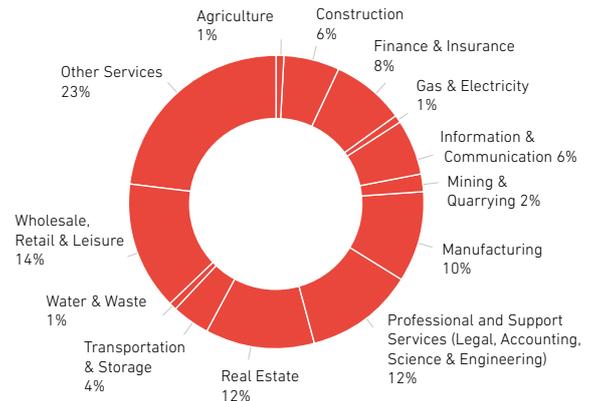
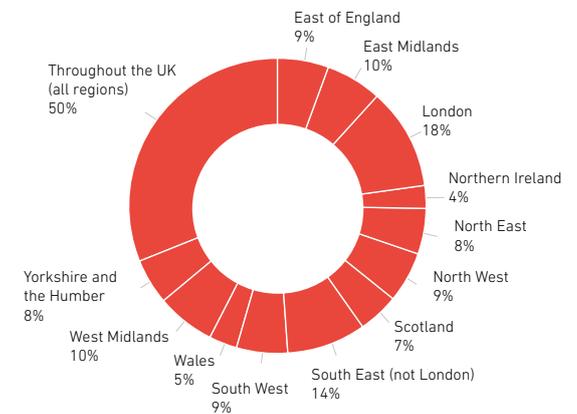


Exhibit 48 Respondent breakdown by region



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