METHODOLOGY

This report is based on a comprehensive survey of 50 investors at CIO and portfolio manager level from private sector pension funds, life insurance companies, asset management houses and a small number of hedge and sovereign wealth funds. The survey was targeted solely at UK-based respondents who are actively involved in the infrastructure investment market.

All interviews were conducted by YouGov on behalf of DLA Piper during February and March 2018.
INTRODUCTION ........................................................................................................... 04
EXECUTIVE SUMMARY ............................................................................................... 05
UK INFRASTRUCTURE: BACKGROUND & CONTEXT ................................................. 06
POLICY PERCEPTIONS & PRIORITIES ........................................................................ 07
REGULATORY ENVIRONMENT ...................................................................................... 08
POLITICAL INFLUENCES ............................................................................................. 09
FUTURE GROWTH ........................................................................................................ 10
CONCLUSIONS: A BLUEPRINT FOR GROWTH ....................................................... 11
INTRODUCTION

Having spent the past three decades working with major players across the global infrastructure market, on some of the largest, most significant projects in the industry, we believe this is a watershed moment for the sector.

- Political will to invest in and improve infrastructure has, arguably, never been as strong;
- The need for infrastructure investment continues to exceed capital budgets;
- The National Infrastructure Commission is due to publish the UK’s infrastructure plans for the next three decades; and
- The Brexit process is creating uncertainty, but also presents a unique opportunity for positive change.

The UK government has demonstrated its commitment to investing and improving national infrastructure but acknowledges it cannot shoulder the financial burden alone, with Treasury Minister Robert Jenrick recently stating “that the case is still strong to use private finance to finance public projects.” This appears to be a sentiment echoed by devolved governments in the UK. On this basis, the level of support from the investment community will ultimately determine whether collective government ambition can become reality, so it is therefore considered timely to find out what investors think about current policy, the challenges faced by the industry, the procurement process and their priorities for investment in the future.

As well as providing a snapshot of investor sentiment on the status quo, this report also provides a summary of their views on the ‘way forward’ in what we believe constitutes a robust blueprint for transforming UK infrastructure beyond Brexit.

We hope it provides useful and thought-provoking reading and would welcome your feedback on the issues raised.

Colin Wilson
Partner, DLA Piper
UK Head of Energy & Infrastructure Projects

Colin has over 23 years’ experience in major infrastructure projects, financings and large commercial transactions, particularly cross-border joint ventures, outsourcings and Public Private Partnership (“PPP”) projects in the UK and internationally.

He regularly acts for central government, corporates and lenders and has been the lead lawyer on, most notably, several high profile and complex transport, healthcare, defence, security, technology and accommodation projects.
Infrastructure provision in the UK stands at a crossroads. While the government has thrown its weight behind initiatives to make significant investments and improvements and a number of transformational schemes are already in progress, the UK is ultimately playing catch-up with many in its G7 peer group. That said, this is not a challenge that is unique to the UK. Indeed the World Bank forecasts an $18 trillion shortfall in the estimated $97 trillion of infrastructure investment needed by the global economy to keep pace with profound economic and demographic changes by 2040. Without private investment, there simply is not enough sufficient funding to address infrastructure needs.

As such, forging effective partnerships working between the public and private sectors is seen as a major priority. Feedback from the investor community paints an optimistic outlook for the future of UK infrastructure, with the headline findings revealing:

- **Overwhelming investor support for existing government infrastructure plans**
  The government’s National Infrastructure Delivery plan is seen as a stable and reliable plan for the long term.

- **Clear consensus on priority development areas**
  Driving improvements in the energy and transport sectors head the agenda while education and flood defences are seen as a lesser priority.

- **The enduring investment cachet of the UK**
  Brexit and political turbulence are clearly causing uncertainty, but the majority of investors still prize UK projects over opportunities elsewhere.

- **Regulation is not seen as a major barrier to current investment**
  The UK’s procurement process is broadly viewed favourably with regulation well down the list of investor concerns.

- **But, regulation could be an enabler for increased investment**
  Despite the natural uncertainty provoked by Brexit, it also provides an opportunity to re-examine the current regime. 88% of investors believe relaxing procurement rules could stimulate investment.

- **A clear message to Westminster and devolved governments around over-politicisation and National Infrastructure Commission**
  Excessive politicisation of major projects is a significant turn-off for risk averse investors. The call to make the NIC independent couldn’t be clearer.

- **A positive outlook on future growth and agreement on the likely drivers**
  Investors are upbeat about the future, anticipating an increase in net returns during the next decade. Continued investment in Smart Cities is cited as a means of unlocking further growth.

Although investors are clearly in an ebullient mood, they also have clear recommendations to stimulate further investment. From relaxing current procurement rules, to creating a less politically-charged environment for driving projects forward, the detailed and specific opinions of investors define a clear blueprint for positive change beyond Brexit.
Against the backdrop of the UK’s impending exit from the European Union and an increasingly polarised political landscape within Westminster, and across the UK, these are particularly interesting times for investors and stakeholders in the UK infrastructure market.

Investment in the sector remains encouragingly buoyant, at 2.2% of UK GDP per annum with £460bn of fresh government investment in infrastructure planned for the next few years, notably on big-ticket projects such as HS2 and Crossrail. The cachet of UK infrastructure also remains highly valued among the investor community and there is no shortage of robust government rhetoric around the value and importance of infrastructure to drive growth and prosperity across UK plc. That said, challenges still persist.

UK: “Could do better”

According to the OECD, the UK lags behind other countries and needs to spend an additional 0.4% of GDP between 2016 and 2030 to meet its infrastructure needs. The World Economic Forum ranks the quality of UK infrastructure as 24th in the world. This is at the lower end of the G7 and puts the UK in the realms of the distinctly average when compared to other industrialised nations.

With this in mind, there is strong recognition across government of the need to improve efficiencies in project delivery. This has already led to the creation of the National Infrastructure Commission – which provides expert, impartial ongoing advice to government on the UK’s evolving needs (and has recently been the subject of a change in stewardship following the high profile resignation of Lord Adonis and appointment of Sir John Armitt) – and the Infrastructure and Projects Authority (IPA), the government’s dedicated in house centre of expertise for infrastructure and major projects.

Political machinations

The political dynamic continues to drive the approach to investment across the UK. One area where investors have limited visibility is the Brexit process. With negotiations set to intensify in the coming year, concern understandably persists in the market as to what impact the UK’s ultimate trajectory outside the EU will have on infrastructure investment and resource over the short and longer term.

Looking to the immediate future, this summer, the National Infrastructure Commission is due to publish its assessment of the UK’s infrastructure needs for the next three decades. This masterplan (together with the devolved Governments’ Infrastructure Investment Plans) will set the tone and level of ambition for UK infrastructure, but its success could depend on whether or not the priorities of government align with those of the investment community.

Meanwhile, the opposition benches at Westminster are causing a further pause for thought, with the Labour party vowing to nationalise a number of the UK’s key industries and roll back PFI projects should it come to power in 2022. In Scotland, political backing from SNP of their own NPD model for future stand-alone projects (post ESA10) remains unclear, though commitment to the model appears strong. Whilst in Wales there is increased support for revenue funding investment under their new Mutual Investment Model, despite Labour being the largest party.

Investors hold the key

Clearly, the government is unable to take the full financial strain of infrastructure investment in isolation, pushing the investment community into an increasingly pivotal role – and one that could determine how successfully the UK raises its game. However, there is intense competition between investors for the ‘prize’ projects, which is pushing up valuations and may be contributing to the slowdown in deals seen at the start of 2018.

The NIA is a very ambitious but welcome piece of work which should set the blueprint for the infrastructure investment the UK needs over the next 30 years.

Darryl Murphy – Aviva Investors
**Policy Perceptions & Priorities**

**Investors and policy**

With a critical need for private investment in UK infrastructure, it is important to identify where investors’ priorities lie and how supportive they are of current government policy.

At a strategic level, the findings reveal overwhelming support for the certainty delivered by the government’s National Infrastructure Delivery Plan, with 88% viewing it as a stable, long term approach on which they can rely.

There was clear consensus among CIOs and portfolio managers on the key areas for development and investment, with more than a quarter (27%) putting energy and transport at the top of the agenda, while education (4%) and flood defences (2%) languish at the bottom. And it is within national projects where the appetite to invest is strongest, with built assets being the most attractive – the findings reinforce the well-documented reticence among investors to back speculative projects.

**Strong pull of UK endures**

Despite the uncertainty created by Brexit, the majority of investors (84%) are most interested in UK-based projects, with the US (66%) and Australia (59%) in second place and third place – albeit someway behind the pull of home-based schemes. There is less interest in emerging economies such as Sub-Saharan Africa (54%) and Latin America (48%), but this is perhaps explained by the fact investors cite economic and political stability as the most significant factors affecting their investment decisions in new markets – even ahead of future income visibility. However, once proven returns are seen in these markets there is a sufficiently healthy interest to indicate that UK investors will pursue opportunities overseas.

---

**Not a day goes by without the mainstream media highlighting the requirement for updated transport infrastructure in the UK, as a result, transport projects are politically and publicly supported which offers an ideal investment environment.**

Alison Fagan – DLA Piper

---

**In comparison with G7 countries Investors believe the energy and transport sectors require the most development and investment in the UK.**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>27%</td>
</tr>
<tr>
<td>Transport</td>
<td>27%</td>
</tr>
<tr>
<td>Housing</td>
<td>18%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>13%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>11%</td>
</tr>
<tr>
<td>Education</td>
<td>4%</td>
</tr>
<tr>
<td>Flood Defences</td>
<td>2%</td>
</tr>
</tbody>
</table>
Typically, investors take a dim view of industries that are beset by onerous regulation and red tape. Remarkably, regulation was quite far down the list of factors affecting investment decisions. Perhaps this is because the majority of investors (64%) have a positive view of the UK’s procurement process describing it as either transparent, fair or easy to understand. However, a significant minority (32%) find it unnecessarily complicated.

Post-Brexit Opportunity

While regulation did not appear to be a barrier for UK investors, the findings reveal how it might act as an enabler for growth. Investors were in agreement on the opportunity presented by Brexit to re-examine the UK’s procurement process. A resounding majority (88%) believe relaxing the rules would attract more investment into infrastructure projects.

“Current policy restricts co-creation of innovation, as the innovation is only led through procurement. Partnership arrangements with gain share are more creative, and allocating budget and requesting innovation from the private sector can deliver more value. If the budget and desired minimum output is competed then the private sector has more freedom to innovate and deliver more value.

Alistair Dormer – Hitachi Rail

Almost 9 in 10 investors believe relaxing UK procurement rules would attract more investment into UK infrastructure.
The interplay between politics and investment can be difficult and the infrastructure sector, it appears, is no different.

**Message to government**

An overwhelming 84% of investors agree that infrastructure project proposals from the UK government have become too politicised. Tellingly, more than half (55%) believe over-politicisation has a direct effect on the value for money of project proposals, with as many as 7 in 10 having been deterred from investing due to political concerns. Food for thought for policymakers indeed.

A longstanding major frustration for investors on large scale projects is the potential for changing priorities mid-project. To mitigate this risk, 43% would like to see the government take action by identifying and committing to projects which have robust cross-party political support. Furthermore, a significant number (38%) feel the government should accept a higher degree of completion risk to incentivise greater private sector participation in long term projects, which are naturally fraught with greater risk.

**Call for independence**

It is hardly surprising to see the vast majority of investors (91%) calling for the National Infrastructure Commission to be granted statutory independence by the government, though Westminster’s appetite for this and the practicalities of such a move across the UK (where certain sectors are devolved) remain to be seen.

There also appears to be a strong desire for the government to have an even greater appetite for pursuing projects under PF2, the new approach to public private partnerships, which followed the reform of the Private Finance Initiative.

Looking ahead, investors will be keeping a particularly keen eye on the main party manifestos as we approach the next election, especially given the Labour Party’s recent pronouncements on taking private industries back into public ownership.

> Government acknowledges the constraints of capital budgets across the UK and the continuing need for private investment to fund vital infrastructure and promote economic growth but investors need a degree of certainty and visibility so it’s clear an independent NIC could play a key role driving efficiencies and value for money.

Lillian Mackenzie – DLA Piper
Encouragingly for both investors and Brexit-focused policymakers alike, despite the myriad of concerns and challenges on the table, sentiment is highly upbeat as to the likely future prospects for UK infrastructure as a whole.

Positive outlook
In what could comfortably be described as a ringing endorsement of sector prospects, more than two thirds of investors think net returns from investment in UK infrastructure will increase in the next ten years. A slim majority (55%) also foresee a greater volume of investment opportunities during the coming decade compared to the previous one. Furthermore, four out of five (84%) expect their funds to invest either at the same levels or more over the next five years.

Clear drivers for growth
Looking specifically at the key drivers for growth, investors were unanimous in seeing the issue of smart cities/grids as having the greatest impact on UK infrastructure over the next five years.

Cities across the UK have taken great steps during recent years to make themselves smarter through developing and implementing intelligent strategies to improve delivery of their public services and physical environments. As with many major innovations however, lack of funding acts as the biggest barrier to progress, so the role of private investment in this exciting space has become (and will remain) pivotal.

When it comes to specific technologies, electric cars and autonomous vehicles were cited as being likely to have the biggest impact on UK infrastructure during the next five years. With energy and transport earmarked as the priority areas for investors, we will undoubtedly see significant technological advancements in these areas.

“Whilst the infrastructure need remains high, the UK infrastructure market is at a crossroads. A loss of trust between the public and private sector; the decline of the UK construction sector; loss of confidence of the PPP model; the threat of nationalization, all loom large. It is important that the private and the public sectors find a way to work more effectively going forward.

Darryl Murphy – Aviva Investors

Infratech is certainly on everybody’s agenda, with a general consensus that technology and infrastructure firms will increasingly work together to deliver the right infrastructure solutions. We are also finding that green finance is driving the pursuit of sustainable and green initiatives in developing infrastructure solutions, providing another space for innovation in this market.

Maria Pereira – DLA Piper

Darryl Murphy – Aviva Investors

Smart cities was most frequently ranked as having the greatest impact on UK infrastructure in the next 5 years.
CONCLUSIONS: A BLUEPRINT FOR GROWTH

The buoyant investor appetite to fund more projects in the next decade, coupled with the political will to transform UK infrastructure, presents an encouraging picture for the future of the sector.

How effectively the government navigates its way through the next twelve months of Brexit negotiations will naturally have a bearing on investor confidence, but the UK’s exit from the European Union also presents an opportunity to take stock and make improvements to facilitate further growth.

The findings reveal four areas for making UK infrastructure projects more attractive to the investment community:

- **Incentivise** – consult on current procurement rules to examine how a more relaxed approach could deliver increased investment.

- **De-politicise** – government to not only prioritise projects with cross-party political support, but also create a more collaborative, neutral environment for driving the infrastructure agenda forward. Specifically, this could begin with granting independence to the National Infrastructure Commission.

- **Reduce risk** – government to accept a higher degree of completion risk and address weaknesses in partnership approach for long-term projects.

- **Facilitate effective partnerships** – increase projects to be delivered under the PF2 scheme.

One final wish would be for a stronger political voice to support infrastructure investment and create greater cross-departmental co-operation.

_Darryl Murphy – Aviva Investors_

Investors seek clarity and security of return through large and diversified portfolios which provide low risk income streams – the UK market is structured to support these objectives and facilitate the successful delivery of key infrastructure projects when projects are brought to market.

_Alternative_.

_Alan Birch_

CEO Semperian PPP Investment Partners
ABOUT DLA PIPER

DLA Piper is a global law firm with lawyers located in more than 40 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific, positioning us to help clients with their legal needs around the world.

We strive to be the leading global business law firm by delivering quality and value to our clients. We achieve this through practical and innovative legal solutions that help our clients succeed. We deliver consistent services across our platform of practices and sectors in all matters we undertake.

Our clients range from multinational, Global 1000, and Fortune 500 enterprises to emerging companies developing industry-leading technologies. They include more than half of the Fortune 250 and nearly half of the FTSE 350 or their subsidiaries. We also advise governments and public sector bodies.

KEY CONTACTS

PROJECTS

The DLA Piper Projects & Finance team is one of the largest in the world, with more than 600 dedicated lawyers. Your key contacts are:

Colin Wilson
UK Head of Energy & Infrastructure Projects
T +44 (0) 20 7796 6206
M +44 (0) 7971 142564
colin.wilson@dlapiper.com

Maria Pereira
Partner
T +44 (0) 20 7153 7113
M +44 (0) 7968 558737
maria.pereira@dlapiper.com

Lillian Mackenzie
Partner
T +44 (0) 131 242 5520
M +44 (0) 7971 142507
lillian.mackenzie@dlapiper.com

CONSTRUCTION & INFRASTRUCTURE PROJECT DISPUTES

DLA Piper have a team of specialist Construction and Infrastructure Disputes lawyers, who can provide contractual, practical, operational and risk management advice on distressed projects. Your key contacts are:

Alison Fagan
Partner
T +44 (0) 333 207 7163
M +44 (0) 7790 022976
alison.fagan@dlapiper.com

David Moss
Partner
T +44 (0) 1612 354 021
M +44 (0) 7850 703324
david.moss@dlapiper.com

Stephen Malley
UK Head of Construction
T +44 (0) 20 7796 6685
M +44 (0) 7815 134373
stephen.malley@dlapiper.com

Howard Bassford
Partner
T +44 (0) 20 7796 6969
M +44 (0) 7921 799968
howard.bassford@dlapiper.com

Monique Sutherland
Partner
T +44 (0) 121 262 5641
M +44 (0) 7748 641788
monique.sutherland@dlapiper.com

Restructuring

Our global Restructuring Group comprises over 200 lawyers with extensive experience of advising on all matters relating to public and private companies in under-performing or distressed situations. Your key contacts are:

Michael Fiddy
Global Co-Chair, Restructuring
T +44 (0) 20 7796 6325
M +44 (0) 7968 558915
michael.fiddy@dlapiper.com

Amy Jacks
UK Head of Restructuring
T +44 (0) 20 7796 6671
M +44 (0) 7971 142420
amy.jacks@dlapiper.com

REAL ESTATE

Our award winning global Real Estate team includes lawyers at the forefront of the Infrastructure sector and have advised in relation to some of the most significant infrastructure projects in recent years. Your key contacts are:

Copyright © 2018 DLA Piper. All rights reserved. | JUN18 | 3305197