



Follow us on twitter:
[@ICE_engineers](https://twitter.com/ICE_engineers)

Autumn Budget 2018 Representation

Institution of Civil Engineers



Executive Summary

High-performing infrastructure is a central pillar of any world-class economy. In the UK every £1 spent on infrastructure is worth £2.84 in economic output.¹ It is also a key feature of any prosperous society and tied closely to quality of life. From the transport networks that we all depend upon to get us from A to B, to the energy that we use to heat and power our workplaces and homes, infrastructure underpins everything we do. Yet, too often we take for granted the complexity of the delivery and maintenance of each of these services.

Further still, the effective delivery of infrastructure is key to boosting productivity levels. In a UK context this increasingly important given the degree to which we lag other G7 countries on this measure – 35% behind Germany and 18% behind the G7 average.²

The cost of infrastructure, the engineering challenges of its delivery and the multifaceted governance systems that enable it to function are all ongoing concerns for ICE and the wider built environment sector. As the scale and nature of these concerns shifts as result of unprecedented demographic changes – including a population that will have grown to 75m by 2050 and increasing urbanisation³ – our approach to addressing each of these concerns must adapt accordingly.

To improve the delivery and operation of infrastructure in the UK, ICE's Autumn Budget representation makes a series of recommendations to Government in the following core areas:

- **Funding and financing**

- The feasibility of establishing a UK Investment Bank should be explored as a contingency against a loss of access to low cost anchor finance from the European Investment Bank and to maintain domestic expertise in infrastructure investment.
- Active steps should be taken to facilitate the use of alternative funding and financing mechanisms, including asset recycling and land value capture.
- The Government should give serious consideration to replacing the existing generation of road taxes with a pay-as-you-go model for the busiest roads in England.
- Market-led proposals in rail should be reformed in a way which simplifies applications and respects the sharing of intellectual property from all bidders.

- **Infrastructure delivery**

- The National Infrastructure Commission should be placed on a statutory footing in the long-term to ensure its permanence and enhance its ability to give independent expert advice.
- Embed Project 13 in Whitehall procurement culture, exploring ways to incentivise departments and Government agencies who are first movers.

¹ [HM Treasury \(2014\) National Infrastructure Plan](#)

² ONS (2016) International comparisons of UK productivity (ICP), first estimates: 2015

³ [ICE \(2016\) National Needs Assessment](#)

- **Devolution**

- Devolve further revenue raising powers to Combined Authorities to increase their aptitude to fund infrastructure schemes.
- The regulation of community level crowdfunding should be reviewed and its development supported.

Infrastructure Investment

ICE will be launching its annual flagship State of the Nation report on 18th October 2018. This year, the report examines infrastructure within the context of investment - specifically the ways in which the funding and financing of infrastructure can be better delivered. The report will outline interventions to support individual infrastructure sectors and broader cross-cutting measures touching on the importance of long-term planning and positioning major projects as attractive propositions to the investment community.

European Investment Bank

Britain's impending exit from the European Union will have wide-ranging effects on the financing of infrastructure, not least continued access to financing from the European Investment Bank (EIB), which is currently uncertain. The EIB has been a key anchor investor in the UK economy. Indeed, during 2012-2016, the EIB made investments worth over €30bn in the UK⁴, with much of this finance going towards infrastructure projects. However, following the 2016 EU referendum, the total level of investment fell to €1.8bn during 2017.

ICE believes that the Government should consider setting up a UK investment Bank (or a similar institution) as a contingency in the event that UK access to the EIB is lost. Such a bank could be feasible through the extended use of the UK Guarantees Scheme, with the aim of creating a private institution which seeks to replicate the functions the EIB currently provides. This includes low-cost finance, prioritisation of social and regional infrastructure and ensuring continuity of expertise.

Key recommendation 1: The feasibility of establishing a UK Investment Bank should be explored as a contingency against a loss of access to low cost anchor finance from the European Investment Bank and to maintain domestic expertise in infrastructure investment.

Asset recycling

The UK should seek to emulate successful measures used abroad to improve and extend the provision of economic infrastructure. One such method the UK could use is asset recycling or building to sell, seeking to unlock equity from existing owned assets through their sale or concession to the private sector. The proceeds can then be used to build new infrastructure assets, as successfully demonstrated on infrastructure projects in Australia⁵, creating a virtuous cycle of development and recycling.

Land value capture

The development of infrastructure, particularly transport, has benefits for businesses and residents through the raising of the value of privately owned land in the vicinity of the development – evident particularly through rail developments in London such as Crossrail.⁶ ICE believes that capturing some of this value uplift is a viable way to support the long-term funding of other infrastructure assets and facilitating this in a fair way should be explored by the Government.

⁴ [EIB \(2017\) The EIB in the United Kingdom](#)

⁵ [Government of Australia \(2014\) The Asset Recycling Initiative](#)

⁶ [ICE \(2017\) Crossrail project: finance, funding and value capture for London's Elizabeth line](#)

Key recommendation 2: Active steps should be taken to facilitate the use of alternative funding and financing mechanisms, including asset recycling and land value capture.

Pay-as-you-go for busy roads

The UK's road network is one of the most important transport infrastructure assets that the nation possesses, with 89% of all journeys made by road.⁷ At the same time, the Government's welcome intention to move to phase out the sale of internal combustion engine vehicles by 2040⁸ will eventually make significant fiscal measures, such as fuel duty, obsolete. ICE believes that the time has come for the Government to give proper consideration to alternative measures of raising revenue, linked directly to roads as an asset, through a pay-as-you-go system that could replace the current generation of taxes relating to drivers and road users.

Key recommendation 3: The Government should give serious consideration to replacing the existing generation of road taxes with a pay-as-you-go model for the busiest roads in England.

Improving the use of market-led proposals in rail

At present the UK's rail industry is heavily dependent on public funding. Government policy geared at encouraging more private investment into the railways via the promotion of market-led proposals is welcome. However, in order to increase the participation of the private sector, the current framework needs to be simplified and the approach refined so that intellectual property associated with different bids is protected and fairly rewarded. Market-led proposals have already proved successful in Australia e.g. the NorthConnex Tunnel proposal just outside of Sydney.⁹

Key recommendation 4: Market-led proposals in rail should be reformed in a way which simplifies applications and respects the sharing of intellectual property from all bidders.

Infrastructure delivery

To achieve more equitable growth and prosperity across all of the UK, it is important that major projects like HS2, Northern Powerhouse Rail and the third runway at Heathrow are all delivered without further delay. When completed it is estimated that HS2 will add £15bn to UK's economy each year,¹⁰ whilst the proposed third runway at Heathrow could be worth up to £74bn over 60 years.¹¹ However, to ensure that these projects effectively intersect with other infrastructure and that delivery is undertaken in the most efficient way possible, there are further steps Government should take.

⁷ [DfT \(2016\) Road Use Statistics Great Britain 2016](#)

⁸ [DfT \(2018\) The Road to Zero](#)

⁹ [New South Wales Government Transport Roads and Maritime Services \(2015\) NorthConnex Project](#)

¹⁰ [HS2 \(2013\) HS2 Regional Economic Impacts](#)

¹¹ [DfT \(2018\) The proposed expansion of Heathrow](#)

Statutory footing for the National Infrastructure Commission

ICE believes that the NIC can be a positive influence in enabling the UK's infrastructure to be planned in a long-term and strategic way. However, in order to enable the NIC to undertake these functions effectively and to provide the investment community with greater certainty, the long-term objective should be to place the NIC on a statutory footing. This move would give the NIC a greater sense of authority and build confidence in both investors and those operating in the built environment sector, that evidence-based, independent and long-term planning is central to the Government's approach to infrastructure. To support this approach, Government should use the NIC's first National Infrastructure Assessment as the basis of an ambitious national infrastructure strategy.

Key recommendation 5: The National Infrastructure Commission should be placed on a statutory footing in the long-term to ensure its permanence and enhance its ability to give independent expert advice.

Project 13

As much as there is an onus on Government to help improve the way in which infrastructure is funded and financed, there are also key improvements required of the built environment sector in the delivery of infrastructure.

Productivity growth within the built environment sector has fallen behind other sectors of the economy and without a significant improvement there will continue to be implications for UK productivity more widely. Indeed, at present the UK's overall productivity is poor compared to other G7 countries – 35% behind Germany and 18% behind the G7 average.¹²

The current relationships and behaviours in the UK's built environment have led to a fragmented and unsustainable sector. Overall, it is a business model characterised by low capital reserves, supply chains locked in a cycle of low margins, low investment in skills and dysfunctional relationships.

Project 13¹³ is a new business model based on an enterprise approach as opposed to the transactional nature of business that has existed in the built environment for decades. It seeks to boost certainty and productivity in delivery, improve long-term value in operation and support a more sustainable, innovative and highly skilled industry. Moreover, this new model will provide better value for money for the taxpayers and consumers who ultimately fund our infrastructure investment.

The initiative has already been recognised and reflected in the Construction Sector Deal;¹⁴ the Infrastructure Projects Authority's Transforming Infrastructure Performance;¹⁵ the Department for Transport's Infrastructure Efficiency Strategy;¹⁶ and the House of Lords Science and Technology Committee report on off-site manufacturing.¹⁷

¹² ONS (2016) International comparisons of UK productivity (ICP), first estimates: 2015

¹³ [ICE \(2017\) Project 13: From Transactions to Enterprises](#)

¹⁴ [BEIS \(2018\) Construction Sector Deal](#)

¹⁵ [IPA \(2017\) Transforming Infrastructure Performance](#)

¹⁶ [DfT \(2017\) Transport Infrastructure Efficiency Strategy](#)

¹⁷ [Lords Science and Technology Committee \(2018\) Offsite Manufacture for Construction](#)

Key recommendation 6: Embed Project 13 in Whitehall procurement culture, exploring ways to incentivise departments and Government agencies who are first movers.

Devolution

Combined authorities and sub-national transport bodies

The devolution of policymaking powers relating to infrastructure is increasingly important. Doing so enables decisions to be made on a greater understanding of local needs, whilst integrating infrastructure services is more straightforward at a local level. As such, ICE fully supports the devolution deals that have been agreed to create new Combined Authorities (CA) and the election of their corresponding Metro Mayors.¹⁸

However, for each CA to be as effective as possible, powers over revenue raising should also be devolved. Likewise the formation of sub-national transport bodies – such as Transport for the North and Midlands Connect – is a positive step in terms of promoting a strategic approach to regional transport planning. However, further funding should be made available to sub-national transport bodies, and where appropriate the ability to raise revenue themselves, so as to optimise regional transport planning and delivery.

Key recommendation 7: Devolve further revenue raising powers to Combined Authorities to increase their aptitude to fund infrastructure schemes.

Crowdfunding local and regional infrastructure projects

New methods of peer-to-peer lending and crowdfunding, either charitable or as an investment, are becoming increasingly viable methods of financing, unlocking the potential of millions of small scale investors, particularly for small scale, local or regional projects. The industry is, however, largely unregulated and lacks protection for investors. ICE would encourage Government to find ways to support this form of lending, through enhancing regulatory measures to increase public trust in this form of lending, whilst also taking forward an agenda of actively promoting the opportunities associated with the deployment of this sort of capital.

Key recommendation 8: The regulation of community level crowdfunding should be reviewed and its development supported.

¹⁸ [ICE \(2016\) State of the Nation: Devolution](#)

About ICE

Established in 1818 and with over 92,000 members worldwide, ICE is a leading source of expertise in infrastructure and engineering policy and is widely seen as the independent voice of infrastructure. ICE provides advice to all political parties and works with industry to ensure that civil engineering and construction remain major contributors to the UK economy.

For more information please contact:

Ben Goodwin

Lead Policy Manager, ICE

policy@ice.org.uk

+44 (0)207 665 2109

ice.org.uk

Institution of Civil Engineers
One Great George Street
Westminster
London SW1P 3AA

t +44 (0)20 7665 2109
f +44 (0)20 7665 2189
ice.org.uk

