Autumn Statement 2016: Impact on UK infrastructure

Juliet Reingold, Partner in our Government Group, summarises and comments on the impact of the Autumn Statement on the Infrastructure Sector.

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Commentary

The Chancellor's Autumn Statement has acknowledged predictions that Brexit may cost the economy 2.4% in growth in the long term and so he has focussed on raising productivity. UK workers' productivity rates are below those in several EU countries. The Chancellor reprioritises spending to "build an economy that works for everyone" and "prepare our economy to be resilient as we exit the EU" - this follows on from Government policy that says economic infrastructure (transport, energy, flood defences, water, waste, and digital communications) is crucial for the economy. He is investing in skills, R&D and infrastructure to try to get the UK's productivity "match fit" for a post-Brexit competitive global economy. The cut in corporation tax (designed to attract and retain Foreign Direct Investment following the Brexit vote), coupled with new infrastructure spending, indicates a keenness to stimulate the economy ahead of triggering Article 50. The Autumn Statement has presented the UK as "open for business" post-Brexit. We believe this focus on investment is good for business.

Presenting his Autumn Statement to Parliament, Chancellor Philip Hammond said "Raising productivity is essential for a high wage, high skill economy" and announced that he is forming a new £23bn National Productivity Investment Fund (NPIF) to spend on infrastructure and innovation over the next five years (2017-2022). The new NPIF will target four areas that are critical for improving productivity: **economic infrastructure (transport and digital communications),**

housing and **research and development** (R&D). This builds on existing plans for major investment over this Parliament, including the biggest affordable house building programme since the 1970s, resurfacing 80% of the strategic road network, the largest investment in the railways since Victorian times, and prioritising science and innovation spending. The Chancellor says that the NPIF will take total spending on housing, economic infrastructure, and R&D to £170bn over the next five years reaching 1.7% of GDP in 2021-22.

A key priority emerging is the link between high-value investments in infrastructure and investments in innovation and technology. Alongside improving our current networks is the desire for modernisation aimed at preparing the UK economy for Brexit by tackling what many perceive as inadequate infrastructure that harms the UK's competitiveness rankings.

The NPIF support is intended to:

- accelerate new housing supply
- tackle congestion on the roads and ensure the UK's transport networks are fit for the future
- support the market to roll out full-fibre connections and future 5G communications, delivering a step change in broadband speed, security, and reliability, and
- in turn, support the UK's position as a world leader in science and innovation.

The Government has published the Northern Powerhouse Strategy, allocating £1.8bn funding for regions through the Local Growth Fund, has stated that a Midlands Engine strategy will be published shortly, is continuing discussions with the West Midlands and London on future devolution deals, and continues to pursue city deals in Scotland and Wales.

Whilst the Autumn Statement sets out the priority areas, it has avoided providing real detail in relation to specific areas of investment. Specific projects will be decided in due course, using value for money assessments, following HM Treasury standards. This may mean that actual implementation of infrastructure projects could still be some way off.

Key Items

Brexit

Supporting trade policy and exiting the EU - Additional resource will be provided to strengthen trade policy capability in the Department for International Trade (DIT) and Foreign and Commonwealth Office, totalling £26m a year by 2019-20. There will also be additional resource of up to £51m in 2016-17 for the Department for Exiting the European Union to support the re-negotiation of the UK's relationship with the European Union. Up to £94m a year of additional resource will be allocated from 2017-18 until the UK's exit is complete. In total this will mean up to £412m of additional funding over the course of this Parliament.

Productivity

NPIF - £23bn National Productivity Investment Fund for spending between 2017 and 2022, targeting transport, digital communications, and research and development.

Unlocking land - Part of this will be used to fund infrastructure to unlock land so new housing can be built. Annual capital spending on housing will more than double from the previous plan.

Infrastructure spend

Stimulus - There is a theme of gradual investment in infrastructure, with no short-term stimulus. Transport is a key sector targeted for investment. (Note the Nissan deal).

GDP - Government to commit to spending between 1% and 1.2% of GDP from 2020 on economic infrastructure. Whilst this increase is welcomed after significant cuts in investment as part of the austerity cost-cutting programme, this level of spend is still low compared to international standards and will take several years from now to flow through.

Project finance - There is non-specific support for project financed infrastructure spend, but Government acknowledges that it needs to borrow to kick-start infrastructure investment.

NIC - The Chancellor has asked the National Infrastructure Commission (NIC) for proposals for spending in the next decade to ensure they are targeted at the UK's most critical infrastructure needs.

Fiscal remit - To ensure the NIC's recommendations are affordable, Government has set the NIC a fiscal remit which assumes that spending on infrastructure will lie between 1% and 1.2% of GDP each year from 2020 to 2050. Government will take all final spending decisions.

UK Guarantee Scheme - Government recommits to the UK Guarantee Scheme (Treasury-backed infrastructure bonds) to be extended to at least 2026. To date it has issued nine guarantees that have delivered £1.8bn of Treasury-backed infrastructure bonds and loans, supporting over £4bn worth of investment, although this is well behind its original target of backing £40bn of projects. No further details are provided as to the scale of this support, which projects will benefit from it, or the project risks to be underwritten, so whilst there appears to be continued Government support for the scheme, no detail on the scope of that commitment has been provided.

PF2 - Government will develop a new pipeline of projects that are suitable for delivery through the PF2 Public Private Partnership scheme. A list of projects to make up the initial pipeline, covering both economic and social infrastructure, will be set out in early 2017.

Infrastructure performance - The Chief Secretary to the Treasury will chair a new ministerial group that will oversee the delivery of priority infrastructure projects. The Infrastructure and Projects Authority will lead a review (to report in summer 2017) to identify ways to improve the quality, cost and performance of UK infrastructure.

Devolution - Extra infrastructure funding for Northern Ireland Executive (£250m); Scottish Government (£800m); Welsh Government (£400m).

Patient capital - HM Treasury will lead a review to identify barriers to access to long-term finance for growing firms, supported by an advisory panel led by Sir Damon Buffini. The British Business Bank will also invest an additional £400m in venture capital funds to unlock up to £1bn of new investment in innovative firms planning to scale up.

Transport

£1.3bn - The Chancellor announced an extra £1.3bn investment in transport - the funding is aimed at tackling congestion issues, which lose the country an estimated 100 million hours every year, and also increasing productivity (an area where we lag behind other European countries). To this end, the Chancellor announced a range of schemes.

Local networks - £1.1bn extra to be invested in English local transport infrastructure networks.

Rail capacity - from 2018-19 to 2020-21, the NPIF will allocate an additional £450m to trial digital signalling technology, to expand capacity, and improve reliability.

Smart ticketing - around £80m will be allocated to accelerate the roll out of smart ticketing including season tickets for commuters in the UK's major cities.

Low emissions - £390m by 2020-21 to build UK's competitive advantage in low emission vehicles (ULEV), renewable fuels, and the development of connected autonomous vehicles (CAV). This includes £80m for ULEV charging points' infrastructure; £150m in support for low emission buses and taxis; £20 million for the development of alternative aviation and heavy goods vehicle fuels; and £100m for new UK CAV testing infrastructure. Government will also offer 100% first-year allowances to companies investing in charge-points for electric vehicles.

Local traffic - £220m to fund pinch points for local traffic schemes and a commitment to re-surface 80% of the strategic road network (which will help smooth journeys for daily commuters) but otherwise investment in roads is muted.

Fuel duty - rise cancelled for seventh successive year (costing the Exchequer around £500m a year).

Tech corridor - £140m of funding for the Cambridge-Milton Keynes-Oxford Corridor following the NIC's recommendation. Government will also bring forward £100m to accelerate construction of the East-West Rail line western section and allocate £10m in development funding for the central rail section. The NIC will also undertake a new study on how emerging technologies can improve infrastructure productivity.

Housing

Housing Infrastructure Fund - £2.3bn for up to 100,000 new homes in high demand areas to unlock new private house building.

London - £3.15bn for 90,000 affordable homes.

Public sector land - In early October, Government announced that it would pilot accelerated construction on public sector land, backed by up to £2bn of funding. To meet this commitment, it will invest £1.7bn by 2020-21 through the NPIF to speed up house building on public sector land in England through partnerships with private sector developers.

Transport funding - Government will also examine options to ensure that other transport funding better supports housing growth.

Science

£2bn p/a - Additional £2bn per year to be allocated to investment in research and development by 2021.

NHS - Otherwise, there is no additional financial support for the health and social care system and the NHS is not mentioned at all in the full document.

Technology and Digital Communications

Wider growth - Government looks like it will take a more interventionist stance than the last, and the aviation and tech industries could be the focus of investment. However, there is unlikely to be a pronounced focus on specific industries as the Autumn Statement has indicated that "wider growth" is key and the investment in technology and innovation will extend beyond the tech sector to create a “tech friendly, high productivity” economy.

Digital infrastructure - Investment of £1bn in digital infrastructure. Of this, £400m has been made available from the British Business Bank and will be allocated to help start-ups with growth potential (including so as to avoid acquisition by larger firms). The fund is expected to unlock sums of up to £1bn through matched investment.

5G - Investment of over £1bn by 2020-21, including £740m through the NPIF, to support the roll out of full-fibre connections and future 5G communications. Telecoms companies installing new fibre-optic cables will receive a 100% exemption from business rates for a five year period from 01 April 2017 and funding will be allocated to a coordinated programme of integrated fibre and 5G trials (with the aim of keeping the UK at the forefront of the global 5G revolution). These investments and initiatives build upon progress made by the Broadband Delivery UK (BDUK) initiative which aimed to provide superfast broadband coverage to 90% of the UK by early 2016 and 95% by December 2017 and will need to dovetail with Ofcom’s initiatives to ensure universal superfast broadband availability.

Devolved Administrations and Local Infrastructure

Devolution deals - Government commits to devolving powers to address productivity barriers. It will work towards a second devolution deal with the West Midlands Combined Authority and will begin talks on future transport funding with Greater Manchester.

GLA - Government confirms the Greater London Authority’s (GLA) affordable housing settlement, under which the GLA will receive £3.15bn to deliver over 90,000 housing starts by 2020-21. It will continue to work with London to explore further devolution of powers.

LEPs - Local infrastructure to improve transport connections, unlock house building, boost skills and enhance digital connectivity – Government will award £1.8bn to Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals. £556m of this will go to the North of England, £392m to LEPs in the Midlands, £151m to the east of England, £492m to London and the south east, and £191m to the south west.

Mayoral combined authorities - Government will give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury.

Lending local authorities - Government will also consult on lending local authorities up to £1bn at a new local infrastructure rate of gilts + 60 basis points for three years to support infrastructure projects that are high value for money.

Asset Sales

HM Land Registry - Government announces that HM Land Registry will focus on becoming a more digital data-driven registration business, and will remain in the public sector to maximise value.

UK Asset Resolution - has launched a programme of sales of Bradford & Bingley mortgage assets and will also look to make sales of other assets over the course of the Parliament, currently expected to total £5bn.

Financial and corporate assets - Government continues to explore options for the sale of wider corporate and financial assets, where there is no longer a policy reason to retain them.

Student loan book - Government is continuing to pursue the sale of the pre-2012 income contingent repayment student loan book, and subject to market conditions intends to launch the first sale in early 2017.

Green Investment Bank - The process of transfer to private ownership is ongoing.

NHS Professionals - It was recently reported in the press that the Government announced it would sell off a majority stake in NHS Professionals (the health service's main staffing agency, which provides 90,000 health workers to around a quarter of NHS trusts, covering two million shifts a year) to the private sector with the aim of "creating a profitable business model".

Energy and flooding

Oil and gas - There was no over-arching theme to the energy announcements but Government acknowledged the UK oil and gas sector's position due to global over-supply and announced reductions in its administrative costs.

Lack of certainty - Energy investments are long-term and lack of long-term certainty may hinder the investments needed to transform the UK into a truly low carbon economy. It also still is uncertain how green energy will be incorporated into the Industrial Strategy. However the Autumn Statement did give some support for electric and hydrogen vehicles which will help to improve air quality in our major cities.

Smart energy - Over the next 15 years, more than £100bn of private investment is expected in the UK's energy sector, providing new cleaner generating capacity, upgrading to a smarter energy system, and developing new resources such as shale.

Levy Control Framework - Government is committed to decarbonising the economy while limiting costs on bills. It is considering the future of the Levy Control Framework which it will set out at Budget 2017.

Carbon Price Support - Government confirms it is maintaining the cap on Carbon Price Support rates at £18 t/CO2, uprating this with inflation in 2020-21.

Shale Wealth Fund - Shale Wealth Fund will provide up to £1bn of additional resources to local communities, over and above industry schemes and other sources of government funding. Local communities will benefit first and determine how the money is spent in their area.

Flood defence and resilience - Government will invest £170m in flood defence and resilience measures. £20m of this investment will be for new flood defence schemes, £50m for rail resilience projects, including Dawlish, and £100m to improve the resilience of roads to flooding.

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