

EXECUTIVE SUMMARY

The government's re-engagement with private finance to pay for new infrastructure is hugely welcome. Ministers at the highest level have recognised the opportunity that exists in a time of fiscal constraint to finance the improvements that have been promised to the public estate – and which are so desperately needed.

There is a broad agreement in the construction sector that private finance has the potential to result in the delivery of a significant volume of new infrastructure assets, beyond what could otherwise be afforded at present.

Private finance, operating through a range of models in a range of different circumstances, can help renew the nation's tired and ageing public estate, prepare the country for net zero and assist with delivering the energy transition, all while creating jobs, improving the places in which we live and delivering tax revenues.

However, that new infrastructure can only be delivered, and those benefits realised, if the potential of private finance is grasped. And despite the positive noises from government, that remains very far from certain.

Grasping the potential does not mean returning to a dogmatic approach, but rather using private finance in a smart way to deliver the projects where it really makes sense and offers good value, in order that limited public money is reserved for those schemes where public procurement remains the best course.

So far, the government's action on private finance have not matched its rhetoric.

Roadblocks

The concern is that a number of problems are holding back the development of private finance in the UK, including:

1. The government does not have a clear vision and has not said which financing model it wants to use

The industry currently has little information about how the government sees its programme working in practice, and there is no clarity over the type of financing structures that are likely to be used.

2. Efforts to bring in private finance for social infrastructure remain limited

In the whole of the infrastructure strategy, just one social infrastructure type – primary care and community health facilities in the NHS – is mentioned as a potential beneficiary of private finance. Private finance is likely to generate better results if a single model is deployed repeatedly against a significant pipeline of projects, giving the sector the confidence to invest, and offering economies of scale.

3. There is currently minimal industry capacity to deliver on private finance

The industry is effectively in hibernation and does not yet see the incentives to wake up and deliver projects through this type of model.

4. The infrastructure pipeline needs updating if it is to become an investor tool

In its current form the pipeline lacks data and offers very little insight into private finance opportunities. It requires further work before it can function as a tool for drawing in investors.

The way forward

Given these challenges – as well as many others – it is clear that further action is required if the government's aim to boost the use of private finance strategies is to have a hope of success.

In order that private finance can become a key enabler for public construction projects, this report has identified a number of key areas in which action is necessary, including:

1. Vision and delivery plan

Waking up the currently hibernating market for private finance will require the articulation of a strong vision backed by a credible set of measures designed to deliver it. This plan should be significantly more ambitious about the level of social infrastructure to be delivered using private finance than is currently being suggested by the government, if it wants to persuade the private sector to engage.

2. Institutional framework for ensuring delivery of the plan

The Treasury, which oversees the National Infrastructure Service Transformation Authority (NISTA), should task NISTA with the

role of driving the implementation of the private finance vision and delivery plan, and with supporting industry to understand the government's policies and the available opportunities.

3. Clarity on funding structures and models

The government should work rapidly to end the present uncertainty over which financing structures it will support. The mutual investment model (MIM) devised by the Welsh government should be strongly considered as the basis for a private finance model for schemes that will not have a future private sector income flow.

5. Making the infrastructure pipeline an effective investor tool

To function as an investor tool, the pipeline must contain far greater detail of individual projects, include private finance projects that remain investment opportunities, and set out the funding or finance route for each project

So far, the government has taken only small steps on private finance. But it has successfully broken an important taboo. With sufficient direction and momentum from ministers, there is still the potential for a massive shift in the way public projects are funded. The infrastructure strategy has opened a door, and it is now in the government's gift to lead the construction industry through it.

Methodology

Research for the report was conducted by Building journalists, supplemented by contributions from industry. Building's research delivered a series of articles, since updated by the Building the Future Think Tank team, which forms the heart of this report.

Building was ably assisted by team of experts in this field who formed the Funding the Future advisory panel, helping to inform the research and guide the direction and conclusions of the project.

The views expressed in the report are those of the author and Building magazine alone, and participants cannot be assumed to have endorsed the final findings.

We extend huge appreciation to the Funding the Future Think Tank advisory panel members.

These were:

- Stephen Beechey, group public sector director, Wates
- Meliha Duymaz, chief financial officer and executive vice-president, Skanska UK
- Craig Elder, partner, Browne Jacobson
- Mark Reynolds, executive chair, Mace; co-chair, Construction Leadership Council; co-chair, Construction Skills Mission Board
- James Stewart, chair, Agilia Infrastructure Partners
- Beth West, director and founder, Navigate Advisory

