

# United Kingdom P3 Market Snapshot

## Infrastructure Sector Highlights

The United Kingdom infrastructure market has and continues to be a major source of business for Canadian manufactures, professional service providers and investors. Successive British governments have prioritised infrastructure development ensuring that infrastructure is always central to government policy.

Increasingly, responsibility for infrastructure has been devolved to regional governments (Scotland, Wales and Northern Ireland) though with 84% of the nation's population England remains the largest source of infrastructure work and largely under the control of the Central Government in London.

In 2010, the UK Government published the first National Infrastructure Plan to provide strategic vision for UK economic infrastructure focused largely on transport and energy. Renamed the National Infrastructure Delivery Plan (the Plan) in 2016, the most recent version published in April outlines the Government's priorities through 600 projects and programs with a combined value of CAD \$880bn. For the first time this Plan also includes social infrastructure (CAD \$100bn) with parliamentary plans for large-scale housing and regeneration as well as new local schools, hospitals and prison investments. A key component of the Plan is a list of the top 40 projects. The top 40 is diverse and spans both

the public and private sectors, but all strategic to the UK economy.

In 2013, the Plan was accompanied by an Excel workbook containing infrastructure investment pipelines that had been compiled by the Government. Known as the National Infrastructure Pipeline (the Pipeline) it is not intended to be a statement of need, or a commitment to undertake the projects, but a strategic and more credible overview of the level of public and private infrastructure investment over the next decade. Updated annually the Pipeline is truly comprehensive and includes information such as; project summaries, funding source (private/public), scheme status, budget and further information sources. Both the Plan and the Pipeline are essential reading for any Canadian firm or investors interested in the UK market.

## Infrastructure Procurement Sectors

Unlike Canada there are no central procurement agencies except in Scotland where the Scottish Futures Trust operates in a similar capacity to Infrastructure Ontario and Partnerships BC. In the UK most public infrastructure is the responsibility of the Government department which originates the requirement. The Infrastructure and Projects Authority advises the Government on long-term infrastructure needs and provides commercial expertise to support major projects and programs. In late 2015, the National Infrastructure Commission was created to advise and to advance the most strategic infrastructure needs which to date include smart power, transport in London and high speed rail in the North of England.

Given the national significance of public infrastructure, opportunities are well advertised in advance and are published in the Official Journal of the EU. However, it is more likely that Canadian organisations will enter with Tier 2/3 sub-contracts. In this case direct interaction with Tier 1/2 contractors is advisable and the TCS is in a position to help with this.

The largest infrastructure projects are usually delivered through Special Purpose Vehicles (SPVs) that go to extreme efforts to help SMEs gain access to procurement opportunities. Both High Speed 2 and Tideway for instance use CompeteFor. Developed for the London 2012 Games, CompeteFor strives to be the national supply chain development service, matching buyers and sellers.

## Infrastructure Finance

Prior to 2010, the Private Finance Initiative (PFI or UK version of PPP/P3) was a common form of procurement across a range of projects. Following the loss of public confidence, PFI was replaced with a new model in 2012; Private Finance 2 (PF2). The major changes reflect the Government's wish to encourage new types of investors, particularly pension funds and life insurance companies to lend to projects. PF2 projects are structured on a basis of 20-25% equity and 75-80% debt. Of the equity investment, the Government will hold between 25-49% making it a minority investor taking on both risk and profit. To date PF2 has only been applied in the education sector though some projects in healthcare may be forthcoming.

The UK Guarantee Scheme was introduced in 2013 with a CAD \$73bn fund to encourage private sector investment and kick start major projects with otherwise would have stalled because of adverse credit conditions. It works by providing a sovereign backed guarantee to help projects access finance. Schemes funded include the Drax Biomass Power Station, Northern Line Extension in London and the Mersey Gateway Bridge in Liverpool.

In 2012, the UK also created the Green Investment Bank to attract private funds for the financing of the private sector's investments in energy and waste infrastructure, focussing on offshore wind, energy efficiency, waste and bioenergy and onshore renewables. To date the Bank has been involved in large scale projects with capital expenditures in excess of CAD \$1.8bn or as small as CAD \$3.6m.

For international investors, the Regional Investment Organisation (RIO) has a specific mandate to help identify 'shovel-ready' regeneration projects in the UK. These projects also include both commercial and residential developments.

## Scotland

Responsibility for infrastructure sectors including housing, healthcare, education and transport are devolved to the Scottish Parliament. Like at the national level, the Scottish Government annually publish the [Infrastructure Investment Plan and Pipeline](#).

In Scotland the [Scottish Futures Trust](#) is a Government-owned business with responsibility to deliver value for money across public infrastructure investment as well as secure long-term investment over and above traditional capital sources. Scotland also has a thriving albeit small P3 sector using the Non-Profit Distributing (NPD) model developed as an alternative to traditional PFI procurement.

## Wales

Following a referendum in 2011, further powers have been extended to the Welsh Assembly giving the Welsh Government more oversight over key infrastructure including healthcare, housing, education and roads. Each year the Welsh Government publishes a [Welsh Infrastructure Investment Plan](#) along with a Pipeline. With restrictions on how Wales can raise public finance, along with a reductions in capital spending power, the Government of Wales has shown interest in a form of private public partnerships to address future infrastructure need.

## Northern Ireland

Certain powers over infrastructure have been devolved to the Northern Irish Executive particularly around transport, waste and wastewater and are centred in the [Department for Infrastructure](#). Health and education remain the responsibility of the respective government departments. At

present there is no single Infrastructure Plan available for Northern Ireland.

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