

INTRODUCTION

It has been well trailed that the Chancellor's Autumn Statement will include an announcement on the National infrastructure Plan. Reports suggest George Osborne will announce £30bn of infrastructure spending - two thirds of it to be paid for by pension funds. Depending on whom you believe, this will be spent on schools, road, rail, power generation or telecoms.

This paper considers objectively where investment is needed and would benefit the economy and country most. We then conclude whether the sectors above are the areas in which money should be spent. We have focussed on the following areas:

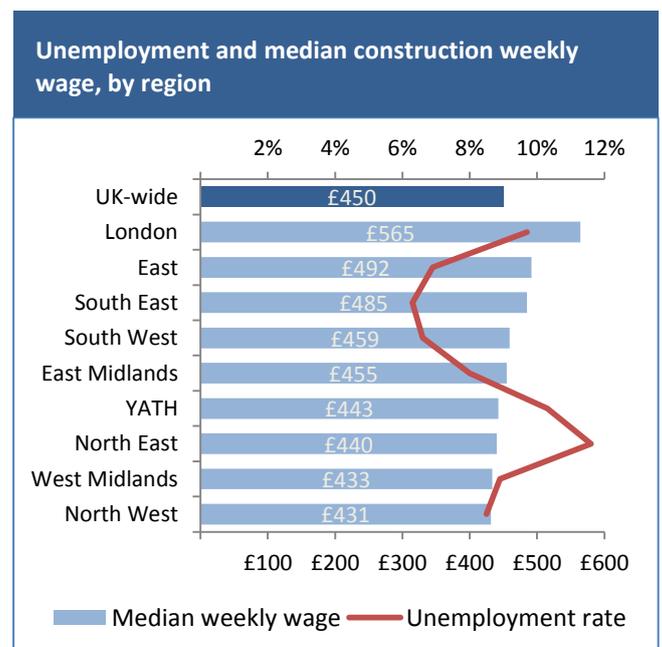
Social Infrastructure	Transport Infrastructure	Utilities Infrastructure
<ul style="list-style-type: none"> • Social & affordable housing • Schools • Hospitals • Libraries & leisure centres 	<ul style="list-style-type: none"> • Road • Rail • Airports 	<ul style="list-style-type: none"> • Power generation • Telecoms (broadband) • Waste processing plants

KEY MEASURES OF EFFECTIVENESS

In assessing each sector, we have made two broad assumptions: money should be spent where there is most requirement and where it has the greatest short-term economic benefit.

We therefore consider the following factors:

- 1. Is investment needed?** Money should be spent in the sectors where it is needed the most – this is our key criterion.
- 2. How much money would stay in the UK?** We assume the Government wants the greatest benefit for the UK economy. In crude terms, this is achieved by keeping as much as possible in the UK (the money going to companies based here). The main concern is sectors where components manufactured abroad make up a large proportion of the total cost of construction.
- 3. How quickly can construction start?** To have the quickest employment impact, construction (rather than just planning) should start quickly.
- 4. How does any spend match the areas with lowest wages?** Ideally, any money spent should reduce unemployment as much as possible. Assuming all other things are equal, this will be done by spending the money in the areas where wages (particularly for construction) are lowest - the North West, West Midlands, North East and Yorkshire & The Humber. These are also the areas with highest unemployment outside London



SECTOR ASSESSMENT

SOCIAL HOUSING

Housing has become increasingly unaffordable in the last ten years. Social housing waiting lists have increased by 75% in the same period to 1.75million households.

this will not help if there are no affordable houses to buy.

The number of houses being built in the UK is at a 40 year low. The Government plans to build 150,000 more social and affordable houses by 2015. It also aims for 80,000 more to be built under the Affordable Homes Programme.

But there is scope for more. Construction can start within

2000-2010 Increase
Average house price: 83%
Average salary: 44%

Steps have been taken to try to help first time buyers but



months, and be in the areas of highest unemployment. There are numerous brownfield and ex-council sites ready to be developed.

We think some of these schemes could be self-funding. Existing, high value, high-rise social housing sites could be re-developed and sold in partnership

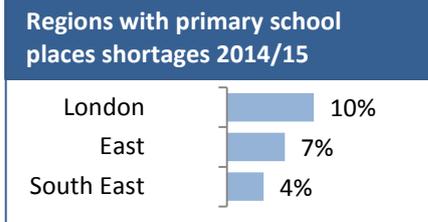
with developers. This would provide the money to develop an increased capacity of social housing.

More homes are needed, many in areas of high unemployment and low wages – construction could start quickly

SCHOOLS

Rising birth rates have led to a shortage of primary school places, particularly in London.

August, it also launched the



The Government has given £500m of additional capital grant to the Local Authorities in greatest need of extra places to increase capacity. In

£2bn Priority Schools Building Programme (PSBP) to build or extend 100-300 schools across the country in 5 years. The PSBP could be extended and included in this plan (taking into account some double counting).

Construction could start quickly, although the areas with greatest need of places are those where unemployment is relatively low, or wages relatively high.

New primary schools are needed and would provide employment in the short-term

HOSPITALS

The NHS's budget is under pressure. Building new hospitals would result in those being under-staffed and under-used. The evidence is

also mixed for the efficiency savings provided by a radical reorganisation of the hospital network into large specialised hospitals.

New hospitals are unaffordable

LIBRARIES & LEISURE CENTRES

Local authorities own and run c. 4,500 libraries and c. 17,000 sports facilities. But levels of use are falling. The monthly usership of libraries, for

example, fell to 13% in 2010. On this basis, investing in these facilities is not a priority at the moment.

No need for new libraries or leisure centres

ROAD

Road congestion is estimated to cost the UK economy c. £20bn a year.

Delayed road projects
Publicly financed: 10
Potentially privately financed: 14

There are a number of delayed, privately funded projects that could be started, and we expect road expansion to be included in the Government's plans.

But new roads do not alter drivers' underlying behaviour. They can just shift congestion

– potentially increasing it overall. For a more long-term solution, changes in behaviour are required.

Although unpopular and seen as part of the "war on motorists", we would rather see a national road charging scheme set up. Developing a

GPS based road charging system with the private sector could build on the technical strength of British companies, whilst reducing congestion, ultimately creating a world-leading product.

We expect road projects to be announced, but they may not reduce congestion. National road pricing should be considered

RAIL

The short-term need in the rail network is for upgrades (e.g. electrification). But private finance is unlikely to work for these projects. Investors typically want to own the whole asset, not part of it.

Two major new build projects have already been identified

through numerous reviews – Crossrail and High Speed 2 (HS2). Crossrail is under construction and budgeted for, but we think there is an opportunity for private investment in HS2.

Rail projects typically do not cover their operating costs, let

alone provide a return. However, a private investor could finance the build of HS2 if the Government then leased it at a suitable rate.

This rate would be higher than the amount the train operating company would pay the Government to use the track.

Cost to build

Crossrail: c. £15bn

HS2: c. £17bn

But the difference would be comparable to the rail subsidy, and the Government has to pay that anyway.

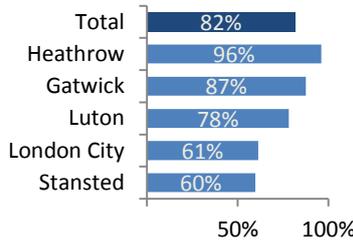
HS2 is the key new build project, and we think it is an opportunity for private investment

AIRPORTS

London's airports are running out of capacity, particularly Heathrow and Gatwick. London only operates half the number of flights to China compared to continental hubs. The situation is similar or worse for flights to India and Brazil.

There is a strong case for additional airport capacity, and that should be near London. The Government has already ruled out new runways at Heathrow, Gatwick or Stansted. We therefore think construction of a new airport is required and support the proposed Thames Estuary airport

Utilisation of London airports



backed by Boris Johnson.

However, the current opposition to the plan suggests that, even if there were the political will, the time before construction could start would be measured in decades, not years.

More capacity is needed near London. A new build airport should be considered, but will be a long term investment

POWER GENERATION

We need 25 GW of new generating capacity by 2025 to stop the lights going out.

Projects that will provide around two thirds of this capacity are currently in

planning. But the Government needs to encourage further investment to ensure a shortfall does not become an issue. In particular, it should clarify (and provide incentives for) its nuclear strategy.

Renewables should be part of the mix, but we need the baseload capacity that fossil fuels and nuclear plants provide.

However, there is a long lead time on any investment and a large proportion of money would go abroad (in the form of equipment).

More baseload capacity is needed. A clear strategy for nuclear power is required

TELECOMS

Superfast broadband (SFB) is not a preserve of London and the South East. There is no region where access to SFB falls below 50%. Take-up, although growing, remains c. 2% of connections.

SFB Access

London: 85%

South West: 52%

Nationwide: 57%

The Spending Review

announced that £530m would be spent expanding the UK's broadband network and extending SFB to areas unattractive to the private sector.

Further investment would be based more on social than economic need, and there are likely to be decreasing returns. Therefore, other sectors are a higher priority for now.

Existing funding is sufficient for now. Other sectors are a higher priority

WASTE

It is estimated the UK must spend £8bn on waste treatment plants to reach the EU Landfill Diversion Targets for 2020. Government spending cuts mean that the

majority (at least 70%) of this will have to come from private investors.

But progress is good and we suspect that EU targets aren't a priority for George

Osborne right now. Coupled with a high proportion of foreign manufactured equipment and long lead times due to planning difficulties, and Waste does not appear a priority at the moment.

Currently on track to meet EU targets. Not a priority for further investment

Conclusion

In assessing where any money should be spent, our first consideration has been the need for investment. Beyond this, our decision is based on the employment effect and the potential for the private sector to invest. We summarise the sectors under consideration as follows:

	Investment needed	Money would stay in the UK	Construction can start quickly	Match with low wage areas	Private sector will invest
Social & affordable housing	●	●	●	●	●
Schools	●	●	●	●	●
Hospitals	●	●	●	●	●
Museums & leisure centres	●	●	●	●	●
Road	●	●	●	●	●
Rail	●	●	●	●	●
Airports	●	●	●	●	●
Power generation	●	●	●	●	●
Broadband	●	●	●	●	●
Waste	●	●	●	●	●

We think the Government should follow a dual strategy. In the short term, prioritise building homes and primary schools to address the need for capacity and provide jobs quickly. Meanwhile focus on rail, airports and power generation for the longer term where a longer planning cycle will delay the impact on the economy.

Considering the areas where it is thought the Government may spend money outside of these sectors (Road & Telecoms), we make the following observations:

- Building more roads does not necessarily reduce congestion. A much bolder (and potentially more effective) strategy would be to introduce a national road pricing scheme in partnership with the private sector – but it will not happen anytime soon
- There has been significant investment in broadband already announced. Anything more than a restating of this would not be the best use of available money

We await the details of the Chancellor’s statement with interest.

Contact



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We look forward to hearing from you.

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