

A CLOSER LOOK AT INFRASTRUCTURE FUNDING

Addressing the UK's infrastructure funding challenge



DELOITTE UK'S DECEMBER 2024 REPORT, **UNLOCKING PRIVATE INVESTMENT IN UK INFRASTRUCTURE**, IDENTIFIED THREE CRITICAL ACTIONS, WHICH NEED TO BE UNDERPINNED BY HIGH QUALITY PROGRAM MANAGEMENT:



Identifying private investment potential: Maximizing private capital in revenue-generating sectors while directing public funds to areas with limited private investment viability.



Matching funding models to investment opportunities: Efficiently scaling established models while innovating where necessary.



Selecting the right funding model: Deloitte UK's assessment framework aids in determining the best funding and financing structure for each project.

ACCORDING TO THE INFRASTRUCTURE AND PROJECTS AUTHORITY, THE UK FACES A MAJOR INFRASTRUCTURE FUNDING GAP, WITH OVER US\$894 BILLION (OVER £700 BILLION) REQUIRED ACROSS ALL UK INFRASTRUCTURE SECTORS.¹

Public investment alone cannot meet this demand—in the coming decades, the National Infrastructure Commission estimates private investment should increase by around US\$13 billion annually.

In response, the new UK government has called for greater private sector involvement in infrastructure investment.

Claire O'Shaughnessy, director, Deloitte UK, notes:

"Since the end of the Private Finance Initiative (PFI) for new projects in 2018, no single funding model prevails. Instead, a range of public-private funding models are used across different sectors."

MAXIMIZING PUBLIC-PRIVATE INVESTMENT

To navigate this evolving funding landscape, Deloitte UK's Infrastructure and Real Estate team highlights two priority areas:

1. Maximize private investment where best suited: A strategic, portfolio-based approach

should prioritize private investment where viable, reserving public funding for areas where private capital is less feasible. The forthcoming UK ten-year Infrastructure Strategy should outline a clear pipeline of opportunities and indicative funding mixes by sector, boosting investor confidence.

2. Use the most appropriate funding model: Funding models should align with project-specific characteristics, leveraging established approaches where possible. Sector-focused playbooks can guide the selection of appropriate models. Deloitte UK's Funding Model Assessment Framework provides a structured approach for determining the best fit.

Hywel Madden, partner, Infrastructure & Capital Projects, Deloitte UK, emphasizes:

"The funding model chosen for each project should reflect the specific characteristics of the project, there is no one size fits all."

THE REGULATED ASSET BASE MODEL

One of the models increasingly used in the UK is the Regulated Asset Base (RAB) model which has been instrumental in attracting private investment for large-scale transport, water and energy projects. RAB models typically grant rights for specified

companies to charge utility users regulated prices in exchange for constructing and operating certain infrastructure. This creates predictable revenue streams, lowers financial risk and mitigates investor exposure. Regulated returns also encourage efficiency. The framework enables a balanced distribution of risks among investors, consumers, and the government.

Claire reflects on the funding model and its success in involving consumer contributions towards infrastructure projects across a range of sectors prior to the framework's update to include nuclear power infrastructure in 2022.

"Heathrow Terminal 5, which opened in 2008, used the RAB model to facilitate the recovery of construction costs through regulated charges, which were ultimately borne by consumers via airline fees and ticket prices."

Another example is the Thames Tideway Tunnel which began construction in 2016, where the RAB model was employed to finance this major sewerage infrastructure project in London. Customers contributed to the funding of the tunnel through a charge on their water bills," says Claire.

Hywel agrees that it is an important model and can be extended across sectors:

"The Nuclear Energy (Financing) Act 2022 introduced the option of a Regulated Asset Base (RAB) model to help fund future nuclear energy projects like Sizewell C. Crucially, the developer earns revenues during the project's construction phase, to contribute towards building costs, before electricity generation commences."

These examples illustrate how the RAB model has been applied to fund significant infrastructure projects in regulated sectors, where the return can be controlled. Consumers are contributing from the start of construction to the projects from which they will ultimately benefit from the improved services and facilities.

READ THE REPORT >



¹ Infrastructure and Projects Authority, "Analysis of the National Infrastructure and Construction Pipeline 2023," GOV.UK, February 2, 2024, <https://www.gov.uk/government/publications/national-infrastructure-and-construction-pipeline-2023/analysis-of-the-national-infrastructure-and-construction-pipeline-2023.html>.

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Hinkley Point C (pictured) provides a template for Sizewell C. (Source: www.sarens.com)

AS THE UK MOVES TO DECARBONIZE ITS GRID BY 2030, NUCLEAR POWER IS KEY TO ENSURING RELIABLE, LOW-CARBON ENERGY. SIZEWELL C, A 3.2 GW POWER STATION ON THE EAST SUFFOLK COAST, WILL GENERATE CLEAN ELECTRICITY FOR AT LEAST 60 YEARS, CREATING 900 PERMANENT JOBS AND THOUSANDS MORE IN MAINTENANCE.

Marking its first year of construction in January 2025, Sizewell C has delivered US\$128 million in local contracts and unlocked US\$319 million in regional benefits, fueling economic growth across East England.

A Department for Energy Security and Net Zero spokesperson stated:¹

“The project will lower electricity system costs, boost homegrown power, and drive major national investment.”

PROGRESS AND MILESTONES:

2022 ||||| 2023 ||||| 2024 - 2025

US\$128 million government funding (Jan); new RAB financing model approved (Mar); UK Government invests US\$894 million, becoming a 50% shareholder (Dec).

US\$435 million allocated for site prep and supply chain (Aug); private investment drive launched (Sept).

Additional US\$1.7 billion government investment (Jan 2024); 300+ UK suppliers engaged with US\$3.2 billion in contracts (Jan 2025).

Milestones obtained from: <https://www.sizewellc.com/investor/>

¹ Department for Energy Security and Net Zero, quoted in “Sizewell C Nuclear Plant Costs ‘Could Double to Nearly £40bn’,” *The Independent*, January 14, 2025, <https://www.independent.co.uk/news/business/sizewell-c-nuclear-plant-costs-could-double-to-nearly-ps40bn-b2679272.html>.

Addressing the UK’s infrastructure funding challenge requires a strategic blend of public and private investment.

A portfolio approach optimizes private sector involvement while preserving public funds for sectors with limited private potential.

The right funding models, coupled with strong project management, are essential for effective resource deployment and successful project delivery.



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* Currency converted from GBP to USD as of 9 April 2025
22

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