Deloitte.

Unlocking Private Investment in UK Infrastructure

December 2024

MAKING AN IMPACT THAT MATTERS since 1845

Priority areas to maximise the impact of both public and private investment in UK Infrastructure

The UK faces a critical infrastructure funding challenge. The Infrastructure and Projects Authority estimates that over £700 billion will be needed across all UK infrastructure sectors over the next decade. Public investment alone cannot meet this figure, with the National Infrastructure Commission highlighting that private investment will need to increase by around £10 billion annually in the coming decades.

In response, the new Government has challenged the private sector to increase investment in UK infrastructure.

Government stopped using the Private Finance Initiative (PFI) to facilitate private investment for new projects in 2018. In the post-PFI landscape, there is no one-size-fits all funding model. Rather, there is a range of public/private funding models now in use across different sectors, informed by significant cross-sector learning.

In the face of this challenging funding landscape, we have identified two priority areas to maximise the impact of both public and private investment into UK public sector infrastructure:

Maximise private investment where it is best suited:

By adopting a portfolio view across infrastructure, Government should seek to maximise private investment where it is best suited, allowing the bulk of public spending to be reserved for sectors where private investment may be less appropriate. The Government's forthcoming ten-year Infrastructure Strategy should provide a pipeline of opportunities and an indication of the potential funding mix by sector, helping private investors to address the challenge.

Use the most appropriate funding model:

Funding models should address the specific characteristics of projects, drawing on established approaches where possible. Sector-focused Playbooks should set out the relevant models for different infrastructure types, which can then be tailored to specific project circumstances. Our *Funding Model Assessment Framework* has been developed to help public sector organisations determine the best model to adopt.

None of this is an excuse not to ensure good project delivery. Across all infrastructure projects, a focus on high-quality programme management is essential to ensure the most effective use of limited resources.

Priority 1: Identifying private investment potential

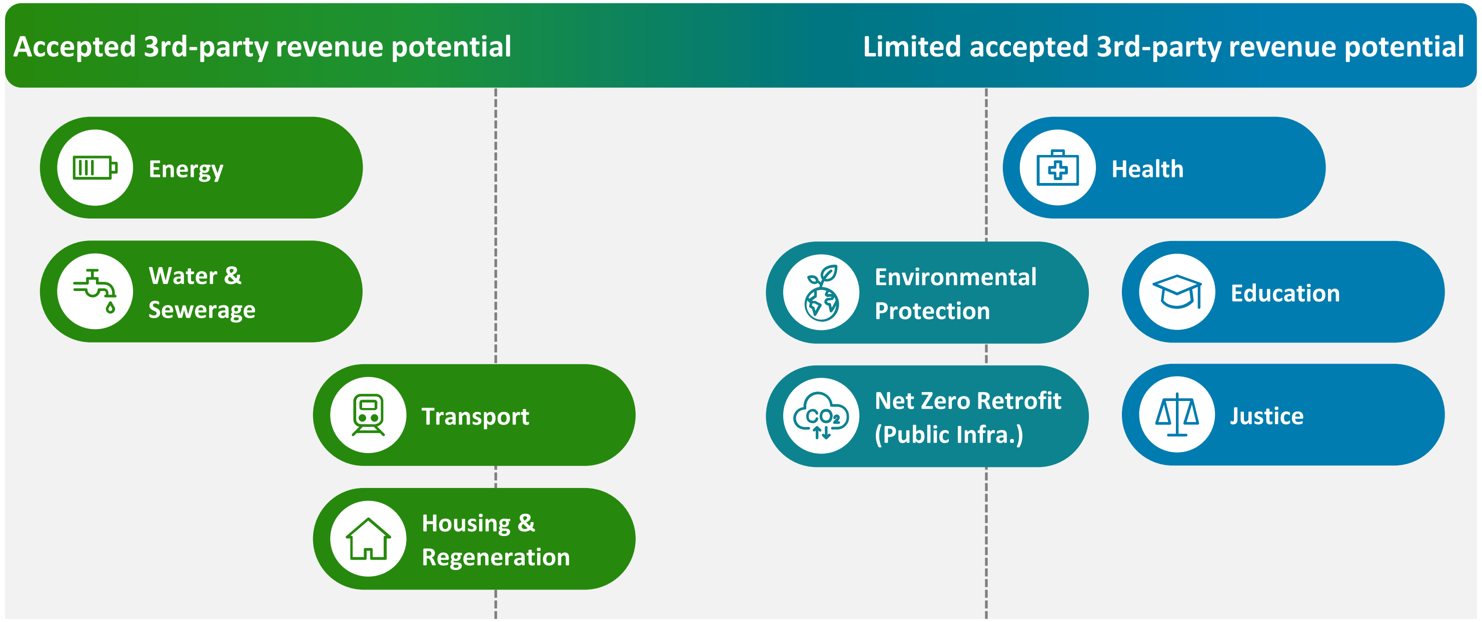
To unlock investment in UK infrastructure it is crucial to maximise private capital for the revenue-generating sectors where it can be most suitably deployed, prioritising public funds for other sectors.

An infrastructure project's suitability for private investment is dependent on its specific characteristics. The most important determinant of its suitability is whether there is a third-party revenue stream which can be utilised, e.g. farebox revenues or utility bill payments.

Where private finance is used for the upfront costs of providing infrastructure, this revenue stream can be used to repay some or all of the initial investment. Where there is limited or no third-party revenue stream, either direct public funding or an availability payment model is usually required. Therefore, private funding lends itself to infrastructure with an associated external revenue stream.

Third-party revenue is typically associated with infrastructure developed primarily to further economic outcomes. By contrast, infrastructure to further social outcomes often has no third-party revenue stream.

Government can decide where best to deploy limited public capital by taking a portfolio view across infrastructure to unlock and direct private investment into sectors with third-party revenue, while focusing the bulk of public spending on the sectors where there is limited alternative.



Sectors with third-party revenue streams, e.g. via utility bills, fares, rent, sales, which can be utilised and attributed to the infrastructure.

Sectors where a revenue stream, saving or cost avoidance can potentially be attributed to infrastructure but may be harder to capture, e.g. savings in insurance premiums or domestic energy bills.

Sectors with traditionally limited third-party revenue streams, typically free at point of use.

Can be combined with other sectors, e.g. hospital development unlocking housing and energy generation.

Priority 2: Matching funding models to investment opportunities

There are a range of funding models available. The model used should reflect the characteristics of a project. Some models are mature, requiring standardisation and deployment at pace and scale. In other areas, innovation is required.

There is no one-size-fits-all solution to facilitate private sector investment in public infrastructure. Different sectors and project types require models tailored to their risk profiles, return expectations and project characteristics. Recognising these differences and focusing on the most appropriate model is crucial for attracting private investment and securing value for money.

Some models address specific circumstances, e.g. RAB in regulated utilities or CfD for renewable electricity, while others apply across sectors (see Table 1). Different models also provide different degrees of incentive for the private sector to deliver on time and on budget – typically by providing a stake in the profit of the project.

The models available in different sectors are at different levels of maturity:

- Regulated utilities are relatively mature with tried and tested models. Here the emphasis should be on standardising the models (e.g. OfWat's Direct Procurement for Customers model) and deploying them at pace and at scale.
- Other sectors, e.g. transport and housing and regeneration, are maturing. There are a range of models available which are often deployed together. The focus should be on consolidating and codifying best practice through Playbooks, Centres of Excellence and standardised frameworks to underpin bespoke responses.
- In sectors where funding models are still emerging, e.g. net zero retrofit and environmental protection, innovation is required. This can take the form of both testing new, innovative models and testing the applicability of models from other sectors. This also applies where projects cut across several sectors.

Across all sectors, simplifying methodologies, establishing consistent thresholds and requirements for accessing investment, and enhancing transparency will be crucial for growing investor confidence, reducing transaction time and cost, and unlocking the full potential of private capital in UK infrastructure.

Table 1: Overview of funding model landscape

Example funding/ commercial models	Private sector incentivised to deliver efficiently	Primary applicable infrastructure sectors
Concessions	🟡	Energy, Water & sewerage, Transport
Availability Payments	🟢	Energy, Water & sewerage, Transport, Environmental protection, Net zero retrofit (public infra.), Health, Education, Justice
Guarantees	🟡	Energy, Water & sewerage, Transport, Housing & regeneration, Net zero retrofit (public infra.)
Regulated Asset Base (RAB)	🟢	Energy, Water & sewerage, Transport
Contracts for Difference (CfD)	🟢	Energy
Land & Property Transactions	🟢	Housing & regeneration, Health, Education
Joint Ventures (JV)	🟢	Housing & regeneration, Health
Land Value & Business Rates Capture	🔴	Transport, Housing & regeneration, Health
Innovative/Emerging Models	🟡	Environmental protection, Net zero retrofit (public infra.), Health

Tried and tested

Energy	Water & sewerage	Transport
Housing & regeneration	Environmental protection	Net zero retrofit (public infra.)
Health	Education	Justice

Priority 2: Selecting the right funding model

Our Funding Model Assessment Framework provides a robust and structured approach to the selection of an appropriate funding and financing model for a given project.

Our *Funding Model Assessment Framework* helps select the most appropriate funding model for any infrastructure project, based on a detailed understanding of the project's characteristics and key drivers at the outset. This understanding is subsequently used to identify the range of funding and financing levers applicable to the individual project, which in turn informs a longlisting and evaluation exercise.

1 Frame the challenge and define the project objectives

2 Understand the characteristics and key drivers of the project

Understand the **Operating Environment** the project is delivering in	**Project duration** Consider the length of the project	**Income** Consider what income the project will generate?	**Project risk** Consider risk profile and appropriate risk transfer	**Project outputs** Consider the project outputs and outcomes
e.g., Volatility, Uncertainty, Complexity, Ambiguity	e.g., Asset life and certainty of requirements	e.g., Direct income stream, potential for wider financial uplift	e.g., Construction cost, demand, pricing	e.g., Assets, services

3 Develop a longlist of funding model options, tailored to the project characteristics

Who pays? Identify potential funding source	**How do they pay?** Identify relevant delivery/commercial structures	**Timing of cashflows** Identify potential sources of finance, where relevant	**Optimise pricing** Identify options to optimise risk allocation and pricing
e.g., Taxation, user charges, value capture	e.g., Public project, government grant, concession	e.g., Public funding, private investment, development bank	e.g., Guarantees, liquidated damaged, contingent options

4 Refine into a shortlist of options and make a recommendation

Establish **evaluation criteria** and any material constraints	Assess **whole life funding requirements** of the project	**Evaluate**, including cost estimates, and conduct **soft market testing** on pricing and bankability as needed	**Recommendations** and approvals/business case inputs

Conclusion

By adopting a portfolio view across infrastructure, Government can decide where best to deploy limited public funds and where to optimise private investment.

To meet the UK's critical infrastructure funding challenge, public funding and private investment must work together in complementary ways. By adopting a portfolio view across infrastructure, Government can decide where best to deploy limited public funds to optimise private investment. This means unlocking private capital where third-party revenue streams exist, utilising funding models appropriate to the sector and project type. In turn, this allows the bulk of public spending to be reserved for sectors where there is limited potential for private sector investment. Across all sectors, a focus on high-quality programme management is essential to ensure the most effective use of limited resources.

Maximising Private Investment

There are a number of actions which central government, government departments, regulators and private funders could take to help unlock and optimise private sector investment.

Central Government (HMT, NISTA)

- Communicate investment opportunities to the private sector via the forthcoming Infrastructure Strategy
- Identify acceptable funding model parameters

Departments and Regulators

- Develop standard models, where appropriate
- Set out Playbook of models relevant to sectors (may sit with NISTA)
- Drive innovation, where appropriate, and embed viable funding models

National Wealth Fund

- Develop standardised approaches to support co-investment alongside the private sector

Private Sector Funders

- Invest in UK infrastructure
- Communicate any challenges and barriers to investment to Government

Making Best Use Of Public Investment

The bulk of public investment should be prioritised for infrastructure projects which are less suitable for private sector investment – for example, in the education, defence, justice and health sectors.

Here the focus should be on driving the efficiency of public spending through high-quality programme management. There are several priority areas which can be addressed.

Central Government

- Take a portfolio view across infrastructure sectors

Departments

- Consolidation of commercial arrangements
- Disaggregation of service requirements
- Improved supplier engagement
- Potential for strategic sourcing
- Improved delivery models and performance incentives

Get in touch

Deloitte has extensive expertise in supporting Public Infrastructure

From determining the feasibility and delivery strategy for a new asset to managing stakeholders and regulatory requirements, Deloitte's global Infrastructure Advisory teams advise clients on the commercial and financial structuring of major government and private capital projects. We provide a comprehensive range of:

- business case development services, including potential value capture, financial modelling and transaction structuring;
- debt & capital advisory, infrastructure financing and procurement advisory for both public and private/bid side; and
- refinancing/asset recycling.

We provide services throughout the lifecycle of infrastructure assets, from planning to operations, and everything in between.

Infrastructure plays a pivotal role in shaping tomorrow and strengthening our economy today, but not without challenges. Construction projects have grown larger, riskier, and more complex. Powered by collaboration, innovation and transformation, we find solutions to the most pressing issues facing our clients and communities. From green infrastructure to sustainability, smart technologies to a lifecycle approach – we drive ambitious outcomes, minimise risk and accelerate delivery.

Get in touch to see how we're creating a lifetime of impact on everyday lives.

Contact us

AUTHORS

Claire O'Shaughnessy
coshaughnessy@deloitte.co.uk

Andy Carel-Maloney
adcarelmaloney@deloitte.co.uk

INFRASTRUCTURE PARTNERS

Victoria Smith
victoriasmith@deloitte.co.uk

Hywel Madden
hmadden@deloitte.co.uk

Robert Scopes
rscopes@deloitte.co.uk

Appendix A – Glossary of current funding models

Name	Description
Concessions	Under a Concession Contract, the supplier receives at least part of their remuneration from users of the works or services they are providing. As such, suppliers are exposed to a potential loss on their investment due to demand fluctuations. There are two different types of concession contracts: a. Concession contract for the supply of works; for example, for the construction and operation of a toll road where the supplier would receive income directly from users of the toll road – most relevant for new infrastructure funding; and b. Concession contract for the supply of services; for example, a contract to operate a leisure centre where the supplier would receive income directly from customers using the centre.
Availability Payments	An Availability Payment is a fee structure often used in public private partnerships (PPP) in which the public agency makes payments under the relevant agreement to the private sector party once the project or facility is made available for use (subject to compliance with the agreed performance criteria and standards). The Scottish Government has a non-profit distributing public private partnership model (NPD) which includes availability payments. The Welsh Government has the Mutual Investment Model which includes availability payments.
Land & Property Transactions	Disposal/acquisition, leasing, sale and leaseback, income strips, ground rents. Compulsory Purchase is covered within Land Value capture (below).
Guarantees	Governments may be able to help encourage private participation in PPPs by reducing risks through government support instruments such as Guarantees. Government guarantees are a commitment to satisfy certain obligations of an underlying contract, or to protect the beneficiary from defined losses if specified conditions occur. Government guarantees are commonly used to make the project more acceptable and financeable to private investors by protecting investors from risks that they have little control over or may not be willing to bear. There are two fundamental forms of guarantees: financial or credit (debt) guarantees and performance guarantees. Financial or credit guarantees are usually unconditional agreements to service debt obligations of the borrower in case of default. Performance-based guarantees cover targeted risks.
Joint Ventures (JV)	Joint Ventures are commercial arrangements between two or more separate entities, established via contract or through a new entity. Each party contributes resources to the venture and the parties collaborate together and share the risks and benefits associated with the venture.

Appendix A – Glossary of current funding models

Name	Description
Regulated Asset Base (RAB)	Under the Regulated Asset Base model, a company receives a licence from an economic regulator to charge a regulated price to consumers in exchange for providing the infrastructure in question. The model enables investors to share some of the project's construction and operating risks with consumers, significantly lowering the cost of capital. This charge is set by the independent regulator, who will ensure that any money spent is done in the interest of users.
Contracts for Difference (CfD)	A Contract for Difference is a private law contract between a low carbon electricity generator and the Low Carbon Contracts Company (LCCC), a Government-owned company. The CfD scheme is Government's main mechanism for supporting low carbon electricity generation. CfDs incentivise investment in renewable energy by providing developers of projects with high upfront costs and long lifetimes with direct protection from volatile wholesale prices, and they protect consumers from paying increased support costs when electricity prices are high.
Business Rates Capture	Tax Increment Finance (TIF) ring fences future tax revenues to fund upfront development costs. This is most commonly used in the UK through Enterprise Zones where business rates grow above an agreed baseline which is retained by the local authority to be reinvested in the local area.
Land Value Capture	'Land value capture' to mean a set of mechanisms used to monetise increases in land values that arise in the catchment areas of infrastructure projects. For example, transport projects produce land value uplifts because transport users compete with each other (and with non-transport users) to acquire land in proximity to transport links to access transport user benefits. There are a number of mechanisms available relating to new development, including the Community Infrastructure Levey (CIL) and town planning Section 106 agreements. Land value capture can also be achieved through direct development of land by the public sector. We note that Government is proposing to reform compulsory purchase compensation rules.