

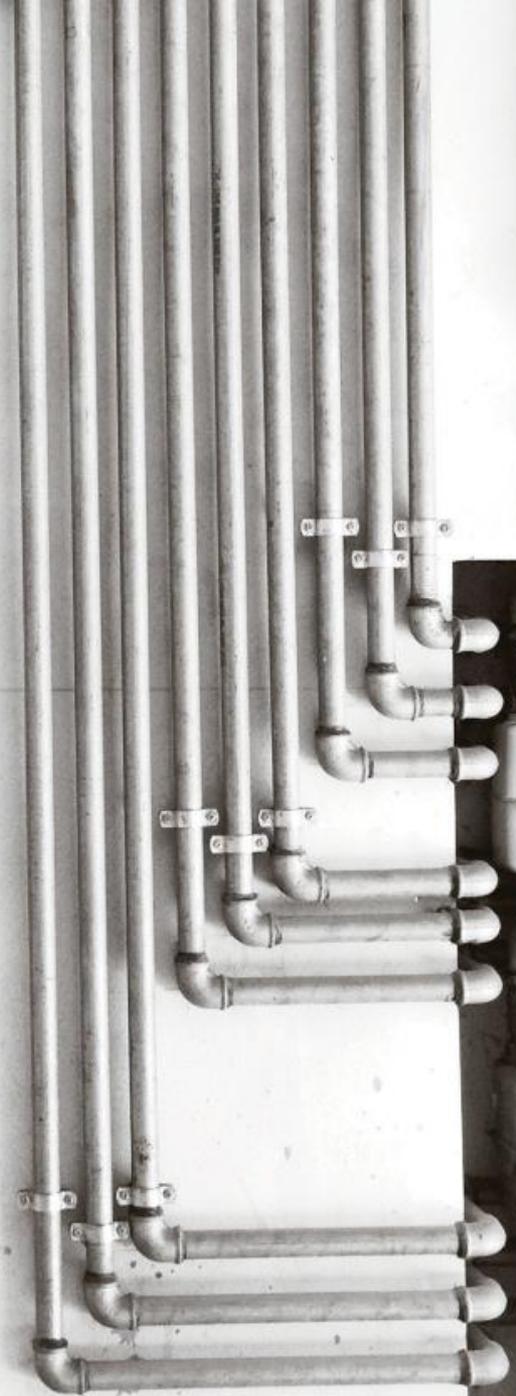


National infrastructure and construction pipeline

KPMG analysis

—

December 2018



Contents

1	Pipeline overview	3
2	Sectors overview	5
3	Sector highlights	6
4	Regional overview	8
5	Regional highlights	9

Disclaimer: The purpose of this report is to provide an overview of the UK Government Construction Pipeline and the National Infrastructure Pipeline across the UK. The pipeline dataset has been provided by Government Departments and presented by IPA at <https://www.gov.uk/government/publications/national-infrastructure-and-construction-pipeline-2018>. KPMG's analysis provides commentary based on the factual evidence limited to the pipeline. KPMG has not sought to verify the accuracy of the data and no assumptions have been made where information is incomplete or missing

Overview

- 1 The Government Construction Pipeline and the National Infrastructure Pipeline are now combined into a consolidated National Infrastructure and Construction Pipeline (the Pipeline)
- 2 The Pipeline reflects projects and programmes with a total allocated value of £413 billion, categorised, for the purposes of this pipeline, into four spend periods: FY19, FY20, FY21 and FY22 and beyond
- 3 The Pipeline contains 684 projects and programmes across 15 sectors and 14 UK regions
- 4 The Pipeline brings together housing, social and economic infrastructure projects and programmes, which are funded by a mix of Private, Public, and Private/Public investments



November 2018 Pipeline overview

The National Infrastructure and Construction Pipeline (NICP) was designed, in part, to provide the built environment sector and investors with a forward view of activity which would allow the sector to plan, give businesses some surety of future work and allow time for private investors to marshal funds to support long-term projects.

The November 2018 pipeline is valued at £413 billion compared to £463 billion in December 2017. The November 2018 pipeline has less allocated spend than the previous pipeline because one less year is included – the December 2017 pipeline covered FY18 to FY22 and beyond whereas the November 18 pipeline covers FY19 to FY22 and beyond.

The pipeline alone is not a comprehensive picture of likely investment over the long-term because government capital budgets, for many departments, and control periods, for many regulated utilities, have not yet been agreed for the period beyond FY21. Therefore in each year approaching FY21 the total value of the pipeline is likely to decrease until a new Spending Review (SR) is conducted and the funding for future control periods are established. Additionally, spend by the private sector is likely to be understated as it relies on ‘self-reporting’.

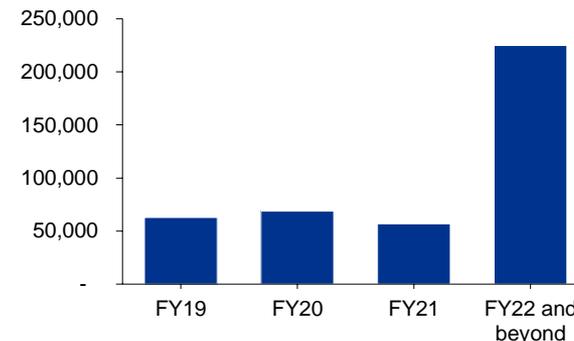
Forecast public (central and local government) pipeline spend as a percentage of GDP is greater than the 1.2% recommended by the National Infrastructure Committee (NIC). However total (public + private) spend is still below the 3.7% recommended by the United Nations Sustainable Development Goals. Although it is important to note that the pipeline is unlikely to capture all forecasted private spend.

Figure 2: Pipeline spend as a percentage of GDP

Pipeline	FY19	FY20	FY21
Local + Central government ^(a) spend as a percentage of GDP	1.5%	1.5%	1.3%
Total spend as a percentage of GDP	3.0%	3.1%	2.5%

Source: OBR 2018 October Economic and Fiscal outlook/IPA

Figure 1: Pipeline spend (£bn)



In order to tackle the apparent fall in investment post the current SR, the Infrastructure and Projects Authority (IPA) have estimated *uncommitted* spend of approximately £600 billion over the next 10 years to FY28.

Sector overview

- Energy (96 projects, £189 billion), Transport (256 Projects, £123 billion) and Utilities (95 projects, £47 billion) account for 65% of the pipeline's 684 projects but 87% of its total value
- Energy and Transport are the largest overall sectors but the majority of their allocated funds are long-term (21/22 and beyond). Whereas the majority of Utilities' spend is allocated in FY19 and FY21
- The Crown Prosecution Service (CPS), the Home office, Waste, Police Forces, Justice, Flood, MOD and Science and Research together represent only 3.3% of the total pipeline value (£13.8 billion)

Figure 4: percentage of total spend by sector

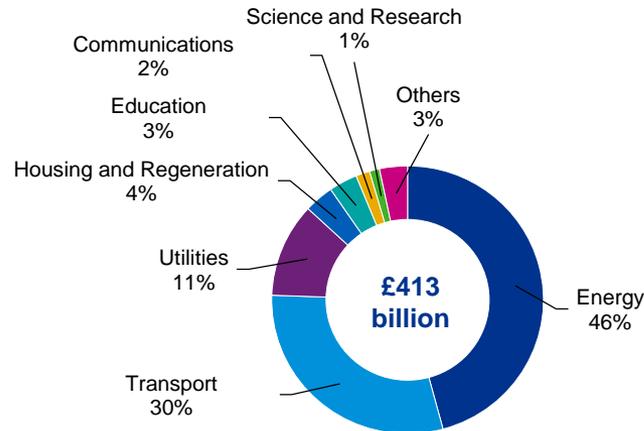


Figure 3: Allocated spend by sector (all sectors), £m

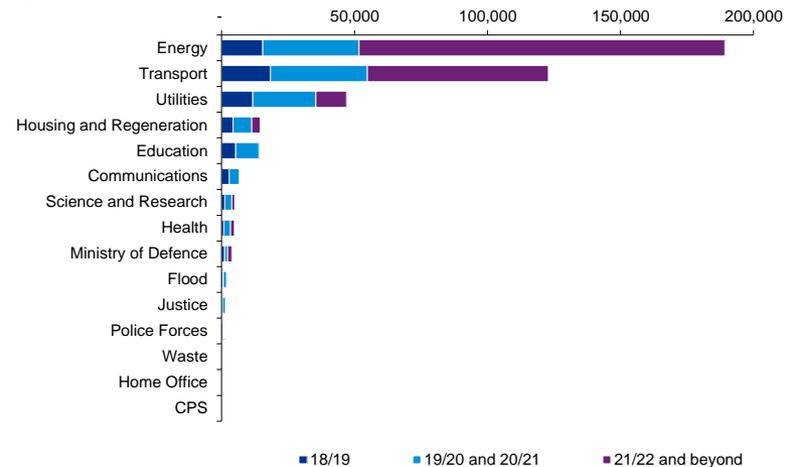
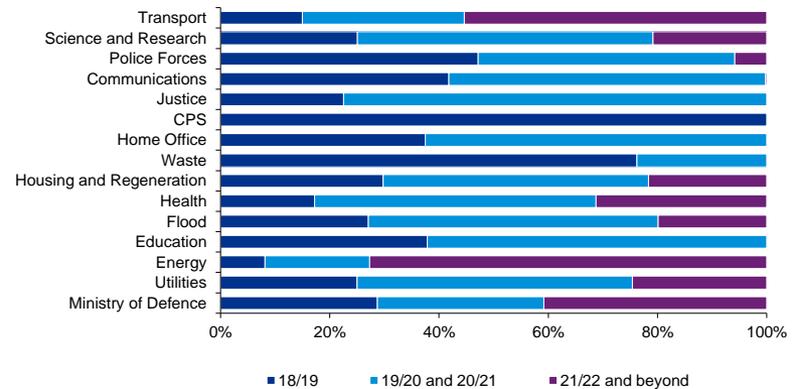


Figure 5: Proportion of allocated spend by year and sector



Sector highlights



Energy

Energy investment continues to be the largest funded sector at £189 billion (46% of the total pipeline). 73% of this is allocated post 21/22

- 74% of Energy spend is allocated to Electricity Generation projects
- 14% and 11% is allocated to Oil and Gas and Nuclear Decommissioning projects respectively. 0.13% is allocated to Flood, Water and Sewage (waste to energy) projects



Transport

Transport investment is the second largest sector – £123 billion (30% of the pipeline). 45% of this is allocated pre 21/22

- Rail (£39bn) and High Speed Rail (£50bn) are together allocated 73% of total transport spend.
- £4.4 billion (4%) is for Airports and 10.4 billion is for Local Authority Transport.
- London (through TfL) is allocated £9.8 billion (8% of total transport allocated funding)



Utilities

Utilities investment is allocated £47 billion (11% of the total pipeline) – 75% is allocated to projects pre 21/22

- Electricity transmission (26%), Water and sewage (23%) and Electricity distribution (25%) projects account for 74% of Utilities investment
- Smart meters are allocated £6.1 billion with the majority of this spend allocated after FY21



Housing and regeneration

£14.4 billion is allocated to investment in housing. This is split 59% and 41% to MHCLG and Homes England

- 78% of total investment is allocated for projects before the end of 20/21
- £3.5 billion is allocated to affordable housing
- £194 million is allocated in Manchester, the West Midlands and Oxfordshire



Education

£14 billion (3.4% of the pipeline) is allocated to Education – 97% is allocated to Schools, 2% to higher education and 1% to further education.

- All of the allocated budget is to be spent before the end of FY21
- £1.6 billion is allocated to Priority School Building Programmes
- The remaining projects are allocated between £7 million and £519 million



Communications

At £6.8 billion (1.7% of the total pipeline) communication investment is the sixth largest sector in the pipeline

- The budget is split into spend on the Digital Economy (£5.1 billion) and Broadband (£1.7 billion), with 99% of the budget to be spent before the end of FY21

Sector highlights (cont.)



Other

- 92% of the allocated investment in **Health** will be spent on the NHS. The remainder is allocated to Procure 21+ and 22. 69% of **Health** spending will occur between FY19 and FY21
- £3.9 billion of funding is allocated to the **Ministry of Defence**. 59% of this is allocated pre FY22
- £2.4 billion is allocated to **Flood** investment. £400 million of this is allocated to the River Thames capacity improvements – the largest single flood investment project. 80% of **Flood** investment spend is allocated between FY19 and FY21
- 83% of the allocated investment on **Justice** is to be spent on **HM prisons**. All of the allocated funds are for projects before the end of FY21
- £1 billion is allocated for **Police Authorities** with 50% of this to be spend on the London Metropolitan police. 94% of spend on police forces is allocated pre FY22
- None of the **Home office's** £53 million spend is allocated to the Border Force or Detention centres. It is all allocated to capital spend on home office buildings

Figure 6: Allocated spend by sector (bottom five sectors), £ million

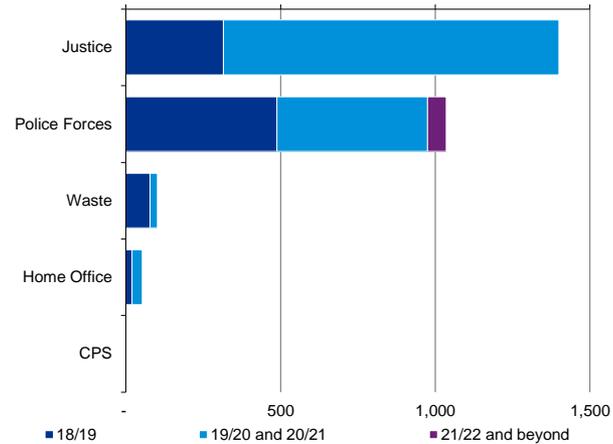


Figure 7: Health allocated spend

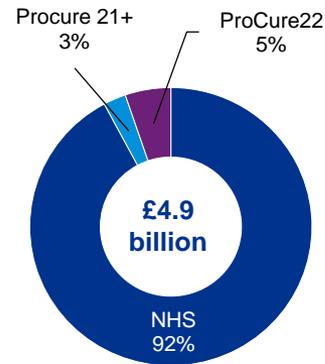
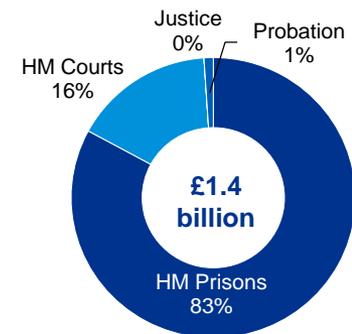


Figure 8: Justice allocated spend



Regional overview

Each project and programme within the pipeline is assigned to one of 14 UK regions, reflecting in most cases the part of the UK in which the project is being, or will be constructed, or the part of the country that will benefit as a result. Some projects are regarded as benefiting the whole of the country, or are yet to be allocated to a specific sub-region, and are therefore assigned to the 'UK'. £166 billion (40%) of allocated projects are categorised as such.

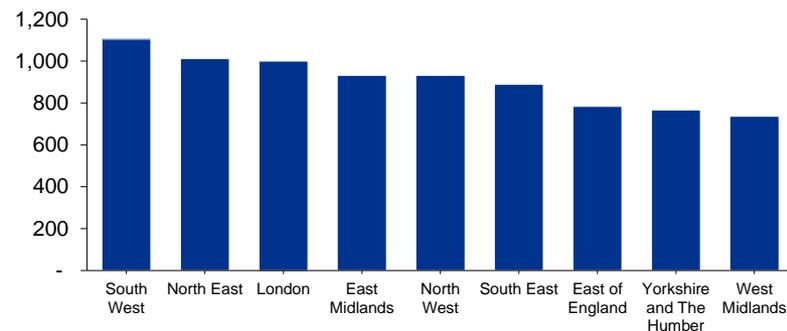
It is recognised that some projects may be located in one region but benefit many. This is true for power generation projects for example. And some projects, especially in transport, may span and benefit multiple regions. As a result there is inevitably an element of judgement in the allocation of spend to a region (or regions). Having looked carefully at the approach taken by IPA, we consider it to be robust and fair.

The majority of spending in this pipeline relates to spending in England. This is because most infrastructure expenditure in Scotland, Wales and Northern Ireland is the responsibility of each devolved administration. Therefore the data for these regions, although included in the pipeline, is not included in this regional analysis.

On average spending is £907 per capita across geographies. It is highest in the South West, North East and London.

- Spending on Energy accounts for 78% of spend in the South West and 58% in the North East
- In London transport accounts for 64% of spend
- In the West Midlands, where spending per capita is lowest, 87% of the budget is allocated to the transport and utilities sector

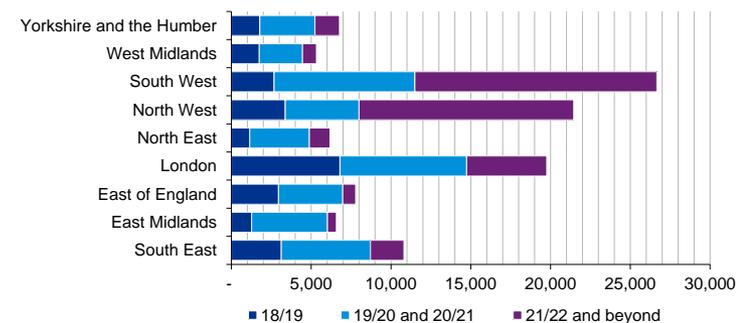
Figure 9: Estimated spend per capita by English region, £



The South West (£26.6 billion), the North West (£21.4 billion) and London (£19.8 billion) are the UK regions with the largest allocated spend. However £28.7 billion, more than any of those three regions, is allocated to be spent overseas. Almost all of this budget is for upstream oil and gas

In the North West and South West 63% and 57% respectively of spend is allocated for FY22 and beyond. However in all other regions, the majority of spend is allocated before FY22

Figure 10: Sector spend by region, £ million



Regional highlights

South West

- The South West is allocated the largest budget, £26.6 billion or 6.5% of total pipeline spend. However the majority of this budget, £20.5 billion, is allocated to Hinkley Point C
- The second largest project in the South West region is £1 billion for Western Power Distribution
- 57% of spend in the South West is allocated for FY22 and beyond

North West

- £21.5 billion is allocated to the North West. At 5% of total pipeline spend, the North West is allocated the second largest budget. 63% of this is allocated to be spent in FY22 and beyond
- Four of the five largest projects in the North West, which together account for £8.4 billion, are allocated to Nuclear decommissioning

London

- £19.8 billion, 4.8% of total spend, is allocated for London. Almost 50% of this spend (£8.9 billion) is allocated to the top seven projects which are in the Water and Sewage Sector, including spend on Thames Tideway (£2.7 billion), and the London Underground, including Crossrail (6.2 billion)
- 75% of this £19.8 billion is allocated before FY21

Other regions

- Electricity Generation and Distribution accounts for £4.3 billion, 64% of allocated spend, in Yorkshire and the Humber. These sub-sectors also make up the majority of allocated spend in the North East
- In the South East transport and utilities account for 68% of allocated spend
- In the West Midlands 83% of the budget is allocated between FY19 and FY21
- 94% of overseas spend is allocated to Upstream Oil and Gas





Jonathan White
UK Head of Infrastructure,
Building and Construction
T: +44 (0)20 7311 8977
M: +44(0)7779 585568
jonathan.rm.white@kpmg.co.uk



Melvyn Oben
Assistant Manager, Infrastructure
Advisory Group
T: +44 (0)20 7311 6449
M: +44 (0)7585 986371
melvyn.oben@kpmg.co.uk



Kate Surianinova
UK Infrastructure, Building and
Construction Sector Executive
T: +44 (0)20 7311 8831
M: +44 (0)7585 984508
kate.surianinova@kpmg.co.uk



kpmg.com/uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity. All rights reserved

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | CREATE: CRT107333B