

# Speech: Creating market certainty and encouraging strategic investment

## **Introduction**

Good morning ladies and gentlemen

The government, with industry, has worked tirelessly over the last 10 years to develop the best possible system to make major infrastructure decisions and deliver world class projects.

We – as the government's centre of expertise for infrastructure and major projects – are a key part of this system. Along with the National Infrastructure Commission, who set the strategy, and the funding decisions in the Treasury, we help ensure the right projects are identified and funded, and then delivered.

But we are currently living through a critical time and our system is being tested.

And it is for this reason, I want to make four key points today:

- First, on market certainty and strategic investment – both are not just about financial investment but can be influenced by multiple factors
- Second, we need to renew our focus on deliverability and improve our procurement processes, with a far more balanced scorecard, which delivers best value, and sustainable procurement rather than focusing on lowest cost. In return we need the private sector to be disciplined and realistic about what it is able to deliver;
- Third, in terms of project and programme delivery it's important we learn the right lessons and I want to set out what some of those lessons are.
- And finally, I will touch on how we are improving infrastructure finance and the [Infrastructure Finance Review](#), and specific issues around financing infrastructure investment.

## **Market Certainty and Strategic Investment**

Market certainty is an interesting topic and is essential to encouraging strategic investment in our infrastructure.

The IPA produces the [National Infrastructure and Construction Pipeline](#) each year, one of the main purposes of which is to help create market certainty

around the future pipeline of projects.

We view this as a way of helping the private sector assess their addressable market.

Our most recent pipeline issued at the end of last year forecasts £600bn of investment over the next 10 years.

This planned investment is more than just a wishlist.

It is grounded in a firm government commitment to spend 1-1.2% of GDP per annum on infrastructure investment, and a move to longer term funding cycles for road and rail.

And the private sector will also play a critical role: 50% of the £60billion per year is forecast to be financed by the private sector.

Our pipeline is being proved to be real every day.

Since 2010 over 4,900 infrastructure projects have been completed, including 400 in the last 12 months.

These include major investments such as the largest operational offshore wind farm in the world, the Walney Extension, capable of generating enough electricity to power over 600,000 homes.

Phase 1 of the London Power tunnels, a £1 billion project laying 200 km of high voltage cables deep under London.

The £63 million Rossall flood defence scheme, one of the single biggest investments in a coastal flood defence scheme to date, protecting 7,500 homes in Lancashire for the next 100 years.

The list goes on.

To be frank, we just don't hear enough about these projects. And we don't celebrate our successes enough. Market certainty is, of course, equally important for government as it is for the private sector.

We need to be certain that the market is addressing its skills and capability gaps, innovating and driving productivity improvements and perhaps most importantly, being disciplined when they bid for projects.

We need to be certain that the market isn't just telling the government what it wants to hear.

That you can deliver what you say you can deliver, for the price you say you can deliver it.

There's no doubt that the collapse of Carillion is still casting a long shadow over the sector's ability to deliver at the moment.

It's also hard to ignore some of the challenges we are currently going through on some of our biggest projects.

The UK's construction industry is fairly febrile and at long last the low operating margins the industry generates are recognised as being unsustainable.

It's vitally important that we speak openly and honestly about the challenges that we are facing, so we can address them.

## **Deliverability**

As I said before, we are living through a critical time. Which is why we all need to up our game.

While Crossrail and HS2 epitomise the challenges facing us at the moment, we view these challenges as an opportunity to change and improve for the better.

We must also remember that actually, we are globally renowned for our projects.

But we do need to keep improving the system that we have built over the last 10 years. Otherwise we will fall behind.

For example, the IPA is already working hard to ensure project delivery expertise will be at the core of future spending decisions.

And I'm encouraged that as a result, the Chancellor is making deliverability a cornerstone of the next Spending Review.

This will help drive a real cultural change, including as I said, becoming better at procurement and creating an environment where taking well calibrated risks is considered acceptable and not criticised incessantly so as to drive poor decision making.

## **Learning the right lessons**

But in order for us to improve things, we need to make sure we are learning the right lessons from infrastructure projects that have gone before.

As you would expect, the IPA has been working closely with the Department for Transport, analysing this very issue.

Rather than a forensic examination of the specific problems – which has been undertaken elsewhere – this work has been deliberately 'system' related and forward-looking.

What we found was that while the causes of failure in each case were different, there were some shared features that are important to draw out.

**Crucially, behaviours and culture are more important than process.**

What we have learnt is that you can have the best, most well designed governance structure in the world, but really it comes down to the behaviours and culture of the people in the system.

A blind commitment to succeed without a balanced perspective, can lead to the wrong behaviours and decisions on major projects.

These issues are not easily countered, even with clear accountabilities and structural checks and balances. But the need for transparency, and a change in behaviour, especially when there are multiple stakeholders involved, is clear.

**We also need to get the balance right on optimism bias.**

We need to pay closer attention to projects even when things are going well.

It's easy to forget to apply the same deep discipline, rigour and scrutiny as we would do if we were more anxious about how well a project was going.

This does require the right balance of building the spirit of optimism in a team, and protecting against an embedded culture of delusion.

While it's important we have enthusiasm and positivity in a project – otherwise it will never be delivered – it does need to be checked regularly.

**Most importantly, we must pay greater attention to systems integration.**

We see that projects across all sectors, and especially infrastructure, need more emphasis on managing increasing technical complexity.

Complex systems integration failures present late in a project lifecycle, but we need to establish the conditions for success right at the start.

Technology is becoming more and more critical to delivery, yet it isn't getting the same level of attention and focus as traditional construction and civil engineering.

So there are some obvious things we need to do to address this, such as allowing enough time for system testing and preventing this time getting squeezed to allow for larger civils costs.

We need to invest in the people with the skills to manage these technological risks and attract them to the industry, which has been associated with just diggers and concrete for too many years now.

## **Improving performance**

Through our [Transforming Infrastructure Performance \(TIP\)](#) work, we are focussing on improving the deliverability of new policies.

We aim to improve the way cost and performance is measured by benchmarking new projects. I'm pleased that we just recently published [best practice guidance on benchmarking](#), that is currently being rolled out across departments and industry.

Government has also committed to using its buying power to increase the use of digital and manufacturing techniques in construction.

We already have some excellent pockets of best practice to build on, such as Network Rail's Modular Stations Programme, the use of real time technology at Bank Station and the use of standardised bridges by Highways England.

Over the last 12 months, we in the IPA have focused on creating a step change in the delivery and performance of infrastructure, closing the sector's well-known productivity gap, and encouraging strategic investment.

## **The Infrastructure Finance Review**

As I said at the outset, we do not champion the role of private investment enough. Over half of our £600bn pipeline is made up of investment from the market.

And for this reason, the government is consulting on how best to support this investment in the future.

So that as we leave the EU, good infrastructure projects continue to access the finance they need.

Government already has tools available, such as the £40bn [Guarantees Scheme](#) which has to date supported projects worth over £4bn, our [Digital Infrastructure and Charging Infrastructure Investment Funds](#), and contractual tools such as Contracts for Difference provided for offshore wind.

In the Infrastructure Finance Review, there are two main issues we would like your views on:

1. How we should respond to a changing relationship with the European Investment Bank – should we change or expand the tools we use to support private investment, and what is the right long-term governance structure?
2. And as we retire PFI and PF2 – and the government is clear that it will not seek a like-for-like replacement – are there new models that could be used?

This Review will inform both the 2019 Spending Review and the upcoming National Infrastructure Strategy.

So I would encourage all of you to participate.

## **Conclusion**

To conclude, delivering all major infrastructure projects is a challenge.

We recognise that the market needs certainty from government that strategic investment will continue.

But the government also needs certainty from the market that it can deliver.

We are doing all we can to make the government the best client it can be.

But we also need you to step up with us.

We can do that together by seeing these current challenges as opportunities, and providing reassurances that we are learning the right lessons.

Such as focussing on behaviours, optimism bias and systems integration.

There are many more lessons of course, but these are the critical three that I think we really need to grapple with.

We also need to celebrate our delivery successes.

And remind ourselves that we have made a lot of progress in building a world class system for infrastructure over the last decade.

Thank you.