REBUILDING THE NATION 03

Infrastructure Investment Partnerships

By Matt Bevington

Published September 2024

This paper was first published in September 2024.
The contents and opinions expressed in
this paper are those of the author only.

Company number, England & Wales: 14406854

Contents

About	**4**
About The Future Governance Forum	4
About the author and acknowledgements	5
Executive summary	**6**
The challenge	**10**
Recent approaches to public-private partnerships in infrastructure	**18**
A new model: Infrastructure Investment Partnerships (IIPs)	**27**
Conclusion	**34**

About The Future Governance Forum

The Future Governance Forum (FGF) is a progressive, non-profit and non-partisan think tank. We aim to provide the intellectual and practical infrastructure vital to national renewal and the revival of progressive government in the UK. Our goal is to shape a comprehensive new operating model for the way the country works, delivering effectively across national, devolved, regional and local government. We bring together people and institutions with the expertise to develop and implement new models of partnership, policy development and service delivery.

Our current programmes of work explore:

- **Mission Critical:** how can governments develop missions as more than a signal of intent, but a theory and a practice of government?
- **Impactful Devolution:** how can government meaningfully and permanently devolve power to regional and local level in one of the most centralised countries in the world?
- **Into Power:** how should an administration be set up, and its people empowered, to deliver on its promises?
- **Rebuilding the Nation:** how can we utilise innovative models of public and private investment to deliver future policy objectives?

By prioritising these questions we are thinking about new progressive models of governance for the long term.

Get in touch:

futuregovernanceforum.co.uk
@FutureGovForum
the-future-governance-forum-fgf
hello@futuregovernanceforum.co.uk

About the author and acknowledgements

Matt Bevington

Matt Bevington is a Policy Associate at The Future Governance Forum (FGF). He works as Practice Director at the consultancy firm Global Counsel, where he advises businesses and investors on public policy across sectors including infrastructure. He recently wrote a report – 'Rebuilding the regulatory eco-system' – for the Progressive Britain think tank on regulatory reform under a Labour government. He has also recently been published in the Fabian Review. Prior to Global Counsel, Matt was a senior researcher at the UK in a Changing Europe think tank based at King's College London working on Brexit, and before that a Europe and industry analyst and editor at the Economist Intelligence Unit.

Acknowledgements

This report would not have been possible without input from the individuals and organisations listed below. This does not in any way indicate their endorsement of the report's conclusions and/or recommendations.

- Michael Berrington, Director, Local Partnerships
- Dr Carter Casady, PPP specialist, Stanford University
- Charles Clarke, Former Secretary of State for Education and Skills
- Dan Corry, FGF Policy Advisory Group member and Chief Executive of New Philanthropy Capital
- Paul Crowe, Chief Investment Officer, Plenary
- James Ebdon, Head of Public Sector Finance, Office for Budget Responsibility (OBR)
- Edward Farquharson, Principal Adviser, European PPP Expertise Centre (EPEC) at the European Investment Bank (EIB)
- Martin Hurst, Former Senior Adviser, Prime Minister's Office
- Lord John Hutton, Chair, Association of Infrastructure Investors in Public Private Partnerships (AIIP)
- Mark Loughridge, Associate Director for Healthcare, Global Counsel
- Bilal Mahmood, FGF Policy Advisory Group and Director at the Royal Bank of Canada
- Francis Maude, Former Minister for the Cabinet Office
- David Noble, Director, Partnerships Victoria
- Geoffrey Norris, Former Senior Adviser, Prime Minister's Office
- Neil Okninski, Senior Director, Local Partnerships
- Matthew Parr, Director of Strategy and Regulation, Thames Tideway
- James Smith, Research Director, Resolution Foundation
- Tim Stone, Former Chairman of the Global Infrastructure and Projects Group, KPMG
- Eleanor Woodhouse, Associate Professor of Public Policy, University College London
- Zoe Watters, Public Sector Infrastructure Partner, PwC

Executive summary

The government should adopt Infrastructure Investment Partnerships – a new approach to public-private partnerships – as one of the delivery models within a new infrastructure procurement framework. This would help to break out of the current cycle of chronic underinvestment, meet the UK's economic infrastructure needs and rebuild the public realm.

We face a choice. Stick with a failed status quo that has led to backlogs, waste and a crumbling public realm. Or develop pragmatic solutions to help begin a new phase of infrastructure delivery in the UK. A new approach to public-private partnerships in infrastructure – Infrastructure Investment Partnerships (IIPs) – should be part of the government's toolkit. It is currently lacking such an option at a time when infrastructure delivery needs to expand and speed up.

Publicly financed infrastructure investment will remain important but, in practice, it has not historically been the sustained priority of governments. Particularly in times of fiscal pressure, it has often been one of the first ports of call for savings and cutbacks. This can put short-term political convenience ahead of the growth potential of the economy. It is often counterproductive and contributes to the cycle of chronic underinvestment that characterises the UK economy today.

The government should seek to reinvigorate the system of infrastructure investment by developing a new infrastructure procurement framework, which should include the option of a new model of public-private partnership known as IIPs. These new IIPs should include a mandatory community benefits pillar, be selectively deployed in line with the new government's missions and industrial strategy, be undertaken in a spirit of genuine partnership, be subject to rigorous governance arrangements and be available at regional or pan-regional level where appropriate. The development of such an option would both be in our economic interests and fiscally more efficient.

The new model could also contain a novel 'Regeneration IIP' option, modelled on the "precinct" approach taken by the Labor administration in the state of Victoria in Australia, in which a core piece of new infrastructure becomes an anchor investment for the regeneration of the wider neighbourhood in which it sits. Such an option would deliver multiple benefits. It would lead to much-needed new infrastructure such as hospitals, ensuring more projects are built on time and on budget, and that assets are properly maintained post-construction. It would also contribute to wider economic regeneration and public policy objectives. And it would deliver infrastructure at lower cost to the public sector by allowing private sector partners to develop the commercial potential of other unused land on site, within parameters set by government.

Recent history shows the difference that having the option of a public-private partnership approach can make. In 2010, the UK Coalition Government axed Labour's Building Schools for the Future (BSF) programme just two months into office and failed to replace it. Seventeen schools that have since been found to have Reinforced Autoclaved Aerated Concrete (RAAC) and require remedial

work had been scheduled for upgrade under the BSF scheme.[1] A National Audit Office (NAO) report in 2023 on the condition of school buildings found "funding for school buildings has not matched the amount DfE estimates it needs, contributing to the estate's deterioration".[2]

Meanwhile, the Labour government in Wales is delivering its Sustainable Communities for Learning programme through a form of public-private partnership known as the Mutual Investment Model (MIM).[3] Construction of the first batch of schools is expected to be completed this year.[4] In recent months, The Welsh government also reached agreement with private-sector partners to deliver a new cancer centre in Cardiff, which is expected to be operational in 2027.

This is what a sensible, pragmatic approach to infrastructure projects can deliver – new hospitals, schools and other infrastructure that can save lives and transform them. As part of its mission-driven approach, the new government in Westminster should learn from, and build on, the MIM developed and delivered by the Labour government in Wales, alongside other examples such as the precinct partnership approach taken by the Labor administration in the Australian state of Victoria.

In the USA, President Biden's administration's Infrastructure Investment and Jobs Act (IIJA), the funding for which continues to be rolled out, also makes explicit reference to the use of public-private partnerships to deliver some of the infrastructure upgrades within that package.[5] The New Terminal One building at JFK airport is being built as a public-private partnership with some of the world's largest infrastructure investors and the support of New York State Democratic Governor Kathy Hochul.[6] All of these show that progressive administrations at home and abroad continue to find public-private partnerships an important delivery tool for major infrastructure projects.

Below we set out the key pillars of our proposed new approach:

Develop a new infrastructure procurement framework that includes a new 'Infrastructure Investment Partnership' option

- Ahead of the spring budget, the government should **agree a new procurement framework for delivering infrastructure projects that includes an option of new public-private partnerships,** known as IIPs, learning from and building on the Welsh Labour government's Mutual Investment Model and the precinct partnership approach taken by the Labor administration in the Australian state of Victoria.

1 'Building work was scrapped at 17 schools with RAAC', BBC News, September 2023

2 'Condition of School Buildings: Department for Education', National Audit Office, June 2023

3 'Sustainable Communities for Learning Programme', February 2023

4 'Mutual Investment Model Report 2022-2024', Welsh Government, July 2024

5 'Infrastructure Investment and Jobs Act', US Congress, January 2021

6 'Governor Hochul Announces Plan to Build World-Class $9.5 Billion International Terminal at JFK Airport', New York State Governor's Press Office, December 2021

Ensure fiscal sustainability

- **Set a share of government revenue cap on total repayments** arising from IIPs in a single year to ensure costs always remain controlled and affordable year on year.

Be mission-driven

- Alongside a new framework, the Treasury should **actively develop a pipeline of infrastructure projects** with departments, agencies and mayoral combined authorities, aligned with the government's missions, to provide visibility to the private sector of project opportunities and support supply chain development. This should include publishing the pipeline of active projects and forthcoming opportunities every six months.

Align IIPs with the government's industrial strategy

- **Set up a Major Projects Skills Taskforce** to identify the key gaps and levers to quickly tool up the public sector to manage a significant pipeline of infrastructure projects delivered through IIPs. This should include consideration of how major projects could be utilised to support the development of industrial skills priorities, as well as how projects could be sequenced to maximise the building up of public sector capabilities to manage projects effectively.

Require contractual commitments on community benefits

- **Include a community benefit pillar within all IIP contracts** to maximise the economic and social legacy of projects for the communities in which they take place. This may include things like employment and training opportunities, as well as support for community projects and local businesses.

Give regions more control over their infrastructure

- Allow **combined authorities** to use IIPs where there is a strong business case, with a bias towards projects that span regions, allowing these authorities to take ownership of their own infrastructure priorities.

Build a new culture of long-term partnership

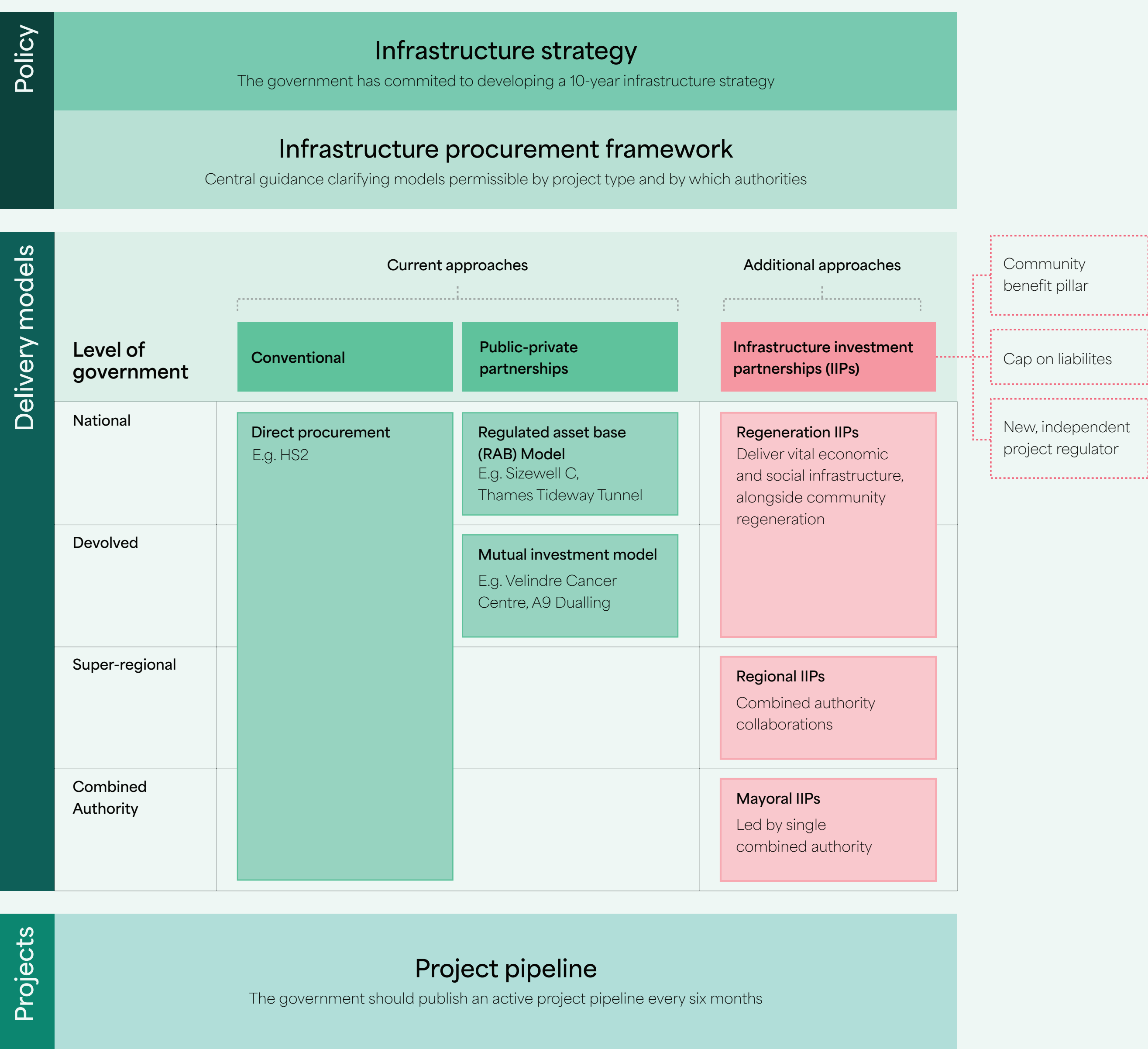
- **Only award contracts to private sector partners committed to building collaborative relationships** to ensure projects are set up in the long-term mutual interest of all parties. A crucial part of this is ensuring that project and public policy incentives closely align.

Manage through more robust governance structures

- **Create a new, independent regulator** to arbitrate neutrally on disputes between public and private partners on these projects where conflicts arise.

The status quo is not working. Doing nothing is not an option. Growing the economy and delivering high-quality public services depends on a well-functioning system for delivering new infrastructure. The approach recommended in this report would help begin to turn a failing system into one that meets the aspirations of the public for a growing economy, high-quality public services and a government that delivers tangible benefits to them and their communities.

Figure 1: Proposed new infrastructure procurement framework



The challenge

The UK has a large – and growing – infrastructure deficit. For many years, if not decades, we have underinvested in building new infrastructure and properly maintaining existing infrastructure. The result is the sub-standard built environment we see every day: pot-holed roads, tired and old-fashioned hospitals, and crumbling school buildings.

But the problem is not only a lack of new infrastructure and poor-quality existing infrastructure. We are on the cusp of several decades in which infrastructure investment and project delivery need to ramp up dramatically to meet our ambitions on net zero, economic growth and regional prosperity. This means not just making up for lost time but embarking on a major programme of new infrastructure investment.

Yet the public finances are stretched. The new government inherited fiscal plans that included cutting back overall capital spending over this parliament and has itself cancelled a number of capital investment schemes it argues were unfunded. As the government's acceptance of the recommendations of pay review bodies for public sector workers showed, any fiscal space that there is will likely – and understandably – be directed towards recovery in day-to-day spending on public services. Some additional public infrastructure spending may be allocated, but this alone will not meet the scale of need.

There is therefore a clear case for making greater use of private finance to help facilitate some of this investment. Public-private partnerships are the most obvious missing piece in the government's infrastructure toolkit. Despite a commitment to develop a new approach, the previous government sat on its hands. Having been a global pioneer, the UK is now an outlier among advanced, and even many developing, economies in not having a centrally approved approach to new public-private partnerships.

It is not a binary choice between old approaches or nothing. Public-private partnerships in infrastructure have been used by authorities across the UK and constantly updated over the past 30 years. There have been at least six adaptations since the original model, and the approach currently in use in Wales and Scotland – the Mutual Investment Model (MIM) – has embedded many of the key lessons from previous approaches, such as not including 'soft services' like cleaning and security within agreements. The central UK government is therefore currently also an outlier even within the UK in not having an agreed approach.

Given all this, the government should develop a new framework for all infrastructure procurement, of which public-private partnerships – and the Infrastructure Investment Partnerships (IIPs) proposed in this report – should be a part. There must be clear safeguards to ensure affordability. IIP projects should be deployed more strategically than other models of public-private partnerships were in the past, aligned with a mission-driven approach to government and industrial strategy. There must be a community benefits pillar – contractual commitments on jobs, training and use of local supply chains – in every project. Contracts must be properly and actively managed

by both sides to ensure value for money and high performance standards, and disputes should be properly regulated. Finally, they must deliver for communities across the UK, ensuring tangible economic and social benefits are felt across the whole country.

Progress through partnership

We face a choice as a country. We can give in to terminal decline and accept poor quality schools for our children and crumbling hospitals for our families that get ever worse each year. We can accept that Britain is quite literally broken and we are not intent on fixing it but merely slowing down failure.

Or we can develop pragmatic solutions that help begin a new phase of infrastructure delivery in the UK. IIPs can be one of those solutions. They are not a panacea but 30 years' experience and evidence show that, if deployed wisely and managed well, they could be fiscally and politically sustainable while producing good quality, value-for-money infrastructure.[7]

Those who insist on the status quo of the state largely going it alone – which, curiously, has become the Conservative position – are condemning the UK to yet more of the same. More backlogs, more waste, more short-term opportunism at the expense of a better future for our children and grandchildren.

IIPs would not be a politically nor fiscally cost-free choice. But the British public are pragmatic. They expect policymakers to find ways to get things done. Voters will not, and should not, accept a fatalism that things cannot get better. It is the duty of the new government to show that they can and to explain why this new approach would be the right one to take.

The infrastructure deficit

The UK is entering a period of high infrastructure investment need.[8] We have legislated to decarbonise our economy by 2050, as well as committing to producing clean power by 2030. The new government's principal economic task is to increase productivity and living standards, in which more and better infrastructure will play an important role. And there is now welcome political consensus on the need to reduce disparities in economic performance across UK nations and regions if we are to reach our potential. Again, infrastructure will be crucial.

But we are starting from a low base. There is already at least a £50 billion backlog across the public sector in maintaining existing infrastructure (see Table 1), and it is growing every year. That figure does not include council housing, street lighting, leisure facilities, museums or central government buildings, for which there is currently no publicly available figure, and so it is

7 Gareth Davies, 'Here's how to make public money work harder', National Audit Office, September 2024

8 'The Second National Infrastructure Assessment', National Infrastructure Commission, October 2023

almost certainly an underestimate. The National Audit Office (NAO) is due to publish an assessment of the backlog in the non-office government estate in late 2024 to early 2025.[9] Some authorities have even begun to acknowledge that their infrastructure is in a state of "managed decline".[10]

Add to that the National Infrastructure Commission (NIC) assessment that new economic infrastructure investment – which does not include schools, hospitals and other social infrastructure – may need to rise by an additional £25 billion a year.[11] This implies an overall "infrastructure deficit" over the next decade of at least £300 billion.[12] This is a huge sum in any context, but particularly so given current fiscal constraints.[13]

Table 1: UK maintenance backlog by sector

Sector	Maintenance backlog estimates
Roads	£16.3bn[14]
Hospitals	£11.6bn[15]
Schools (pre-RAAC)	£11.4bn[16*]
Bridges	£6.8bn[17]
Military housing	£1.5bn[18]
Prisons	£1.4bn[19]
Courts	£1bn[20]
Total	£50bn

9 'Government property maintenance', National Audit Office, 2024

10 'Emerging Local Transport Plan', Kent County Council, December 2023

11 'The Second National Infrastructure Assessment', National Infrastructure Commission, October 2023

12 This does not include new social infrastructure or a comprehensive assessment of main tenance needs across the public sector.

13 'Economic and fiscal outlook', Office for Budget Responsibility, March 2024

14 'Annual Local Authority Road Maintenance Survey Report', Asphalt Industry Alliance, March 2024

15 'Estates Returns Information Collection', NHS England, December 2023

16 'Condition of School Buildings Survey', Department for Education, May 2021

17 'Changing weather patterns worrying bridge engineers', RAC Foundation, March 2024

18 Louisa Brooke-Holland, 'Armed forces family housing: maintenance issues', House of Commons Library, February 2023

19 'Homes unfit for heroes', The Kerslake Commission on Armed Forces Housing, April 2024

20 'Court Capacity', House of Commons Justice Committee, April 2022

21 Mikey Smith, 'State of England's crumbling schools to be laid bare as Labour publishes full details', Daily Mirror, August 2024

The fiscal challenge

All of this comes in the context of very real fiscal constraints. The new government has proposed allowing additional borrowing for investment but there remains a target to have debt falling by the end of the parliament. This will both limit the extent to which public finance can provide the necessary capital for infrastructure projects and may incentivise the government to limit overall capital spending to make the sums add up.

Alongside these fiscal rules, and justifying their existence in the first place, is the sustainability of the UK's public finances. Public debt as a share of GDP has risen from 36% before the global financial crisis and, on current trends, is set to reach 130% by the middle of this century.[22] Some will argue that additional public debt to fund growth-enhancing investment, such as in infrastructure, is justified and financeable irrespective of the impact on public-sector net debt. Nonetheless, the new government will need to show that it has a grip on public debt levels, particularly in light of the fallout from the 2022 "mini budget".

Finally, there is historical precedent. Fiscal pressures almost invariably lead to cuts in capital, including infrastructure, investment. This stop-start approach ultimately increases costs, damages supply chains and widens the infrastructure deficit. The current parlous state of the public realm is testament to the failures of the status quo. In reality, when it comes to infrastructure finance, the choice is not as simple as "public or private". The reality, as we have experienced in recent years, is often "private or nothing".

How public-private partnerships can deliver better value for money

The main basis for public-private partnerships is a view that the private sector, with its commercial experience and expertise, will be better at delivering major infrastructure projects and more efficiently managing assets than the public sector. A key part of this is that performance incentives can be used more effectively with private sector partners to deliver results – with better performance resulting in higher payments, and vice versa – whereas equivalent incentives in the public sector are difficult to develop. There are at least four ways in which these agreements can deliver better value for money outcomes.

- **Risk transfer –** The upfront agreement of headline annual payment levels prior to construction means that private sector partners bear the risk of costs increasing during the build phase and throughout the operation of the asset, notably on things like energy costs, beyond those expected. In publicly-financed projects, these risks sit with the taxpayer.

- **More efficient operations –** Structured appropriately, the payment mechanism should incentivise more efficient operations while maintaining service quality. With sufficient oversight by the public sector, this ensures a high degree of accountability for performance, directly translating to the bottom line, with both financial rewards and sanctions. It is difficult to replicate similar incentives in the public sector.

22 'Fiscal risks and sustainability', Office for Budget Responsibility, July 2023

- **Cost certainty –** Recent publicly-financed projects, such as HS2, demonstrate the value of cost certainty. Public-private partnerships have a strong track record of constructing assets on time, on budget and to the quality specified[23]. These agreements also provide long-term visibility over costs via projected annual repayments. There is generally very limited visibility over the long-term cost of public sector equivalents.

- **Higher quality infrastructure –** With service levels contractually agreed, maintenance backlogs of the large scale seen in public sector equivalents do not happen, largely because this would result in financial penalties. These service levels can be over-engineered and gold-plated, but when calibrated appropriately they ensure that sufficient maintenance takes place to sustain an asset at a quality to deliver service levels required. It also ensures that these assets have a longer useful lifespan. Long-term management of assets should also incentivise building to a higher quality in order to reduce operational and maintenance costs.

The main counter to the above is often to point out that it costs more for the private sector to borrow than for the government. However, this is only one component of the overall cost of constructing, operating and maintaining a piece of infrastructure over many decades. As the evidence in this report sets out, although public-private partnerships will not be the best value for money option in all cases, it has been shown that there are undeniably instances where they can be.

Inflexible or necessary?

IIPs should be part of the solution to deal with this infrastructure deficit. The previous government continued to support public-private partnerships in principle but did not make proactive efforts to develop a new approach. Both Prime Minister Keir Starmer and Chancellor of the Exchequer Rachel Reeves have pledged to develop a close relationship with business. Revisiting the role of public-private partnerships in infrastructure should be part of making that relationship a reality. These projects have been criticised in the past for being inflexible, but this often reflects a political preference to dodge long-term investment need to suit short-term political convenience. These agreements can reduce the “muddling through” margin, which some policymakers resent. But if we wish to build and maintain infrastructure assets to a decent standard, much of this investment is necessary and the flexibility associated with traditional procurement has only worked to incentivise neglect.

Where contracts are managed effectively, maintenance backlogs anywhere near the current scale in the public sector simply would not happen under IIPs. A 2020 NAO survey found that 71% of assets developed under Private Finance Initiatives (PFIs) were anticipated to be handed back at the end of contracts in expected or better quality than required, with just 12% expected to be lower.[24] The baseline level of maintenance for these assets is also likely to

23 S. Verweij, I. van Meerkerk, C. B. Casady, ‘Assessing the performance advantage of public-private partnerships: A comparative perspective’, 2022

24 ‘Managing PFI assets and services as contracts end’, National Audit Office, June 2020

be higher than public sector equivalents, so even in the small minority of cases where contracts underperform against their targets they may still outperform public sector comparators. Payment mechanisms incentivise good maintenance, and a failure to meet these requirements should result in cash deductions. This is a powerful incentive that works and is difficult to replicate in publicly financed projects.

The evidence problem

Whether public-private partnerships ought to be used in infrastructure should be a straightforward question: do they lead to better quality and value-for-money infrastructure than equivalent publicly-financed projects? Politically, however, it is not so simple. Among some policymakers, they are perceived instinctively as expensive and inflexible, with inadequate risk transfer to the private sector. The problem is that there is simply no systematic evidence to prove the value-for-money case irrefutably either way, which has fuelled a debate based on anecdote over data.

The evidence we do have points, if anything, in favour of the use of public -private partnerships in infrastructure. Those who claim they are systematically a poor use of public money either place too much emphasis on individual examples of bad practice, of which there are plenty with publicly-financed projects too, or they are reaching conclusions that the available data simply cannot support. Even as late as 2018, the NAO said "we do not form a view on the value for money (VfM) of PFI".[25] Its main critique has consistently been that such judgements are difficult to make based on existing available data.

A recent in-depth study led by, among others, academics from Stanford in the US suggests that on at least two out of three key metrics – delivery time and service quality – public-private partnerships perform better than traditionally procured projects. That is because private companies have direct financial incentives (and disincentives) to deliver to contracted construction dates and service levels. Supply chain companies also know that their end-client is a commercial organisation and therefore that there is likely to be less scope to play the system to extract higher margins. In short, commercial expertise, experience and incentives matter, and they are difficult to replicate in the public sector. The study's evidence on cost-efficiency remained ambiguous, partly to do with comparability of data.[26]

A 2024 study of 1,000 building projects by German academic Jörg Christen found public-private partnerships were up to a third more efficient over the lifecycle of the asset.[27] A large part of the reason was lower construction costs, linked to more timely delivery, and more efficient operation of assets because maintenance risks sat with the private sector. For instance, if there

25 'PFI and PF2', National Audit Office, January 2018

26 Edited by Stefan Verweij, Ingmar van Meerkerk and Carter B. Casady, 'Assessing the Performance Advantage of Public-Private Partnerships: A Comparative Perspective', Edward Elgar Publishing, 2022

27 Christen J. (2024). Europäische PPP-Vergleichsstudie - Deutschland - Eine Untersuchung zur Wirtschaftlichkeit der Lebenszykluskosten von über 1000 konventionel¬len Gebäuden und 18 PPP-Projekten in Deutschland. Mainz (i.V.)

is a spike in energy prices, the bulk of the risk for absorbing those additional costs will, and should, sit with the private operator. This provides a strong incentive to operate assets efficiently over the long term. These types of assets are also typically maintained to a higher standard, which comes at higher upfront cost but extends their productive life beyond that of public sector equivalents.

In the UK, a succession of studies in the late 1990s and early 2000s pointed to the inefficiency of traditional government procurement. A 2003 NAO report comparing early PFI projects with previous public sector projects found more than 75% of the former were delivered on time and on budget, compared to around 30% for government projects.[28] A 2002 report commissioned by the Treasury from Mott MacDonald reviewing public procurement of projects over the previous 20 years found major optimism bias costs in traditional procurement, which explained delays and cost over-runs.[29] A 2001 NAO study pointed to the fact that "A succession of major studies ... have highlighted the inefficiencies of traditional methods of procuring and managing major projects".[30] We are at risk of forgetting lessons previously learned about the limitations and costs of exclusively pursuing public sector procurement.

Overcoming historical deficiencies

Almost nobody who believes that public-private partnerships can be worthwhile in infrastructure would argue they are perfect. Four main fixes from previous approaches are needed.

- **Lifecycles, not deals.** Public sector incentives were historically tilted towards getting deals done, not ensuring the efficient and effective delivery of services throughout the lifecycle of a contract. Internal civil service churn and under-resourcing were part of the problem, alongside greater private sector ability to attract talent, including from the public sector, and so government institutional memory and capacity were often lost. Political interest was also difficult to sustain once projects were built.

- **Partnerships, not contracts.** One of the complaints about previous public-private partnerships was that contracts were overly complicated, which made it difficult for the public sector to hold partners to account for performance. Alongside that, when public sector bodies have taken an interest in contracts more recently, they have been accused of overly draconian enforcement, which has damaged relationships. Too often, these projects were treated transactionally on both sides rather than as a genuine partnership to be sustained throughout the lifetime of a contract, and beyond into future projects.

- **Arbitration, not litigation.** Disputes and disagreements within contractual arrangements of this kind are inevitable to some degree. However, they do not need to descend, as they have too often in recent years, into expensive, time-consuming and damaging legal action. A new independent

28 'PFI: Construction Performance', National Audit Office, February 2003

29 'Review of Large Public Procurement in the UK', Mott MacDonald, July 2002

30 'Modernising Construction', National Audit Office, January 2001

regulator should hold both sides accountable for their commitments and also provide assurance to the public and lawmakers that contracts are being managed properly.

- **A range of tools, not public-private partnerships alone.** Very few believe we should go back to public-private partnerships being as widely deployed as they were previously. However, there is also a broad consensus among experts we spoke to that it makes little sense not to use one of the tools at the public sector's disposal where appropriate. These should be programme-by-programme decisions. But at a critical moment, with large infrastructure demands on the horizon and very real public finance constraints, it would be foolish not to have all available tools on the table.

Recent approaches to public-private partnerships in infrastructure

A brief history of public-private partnerships

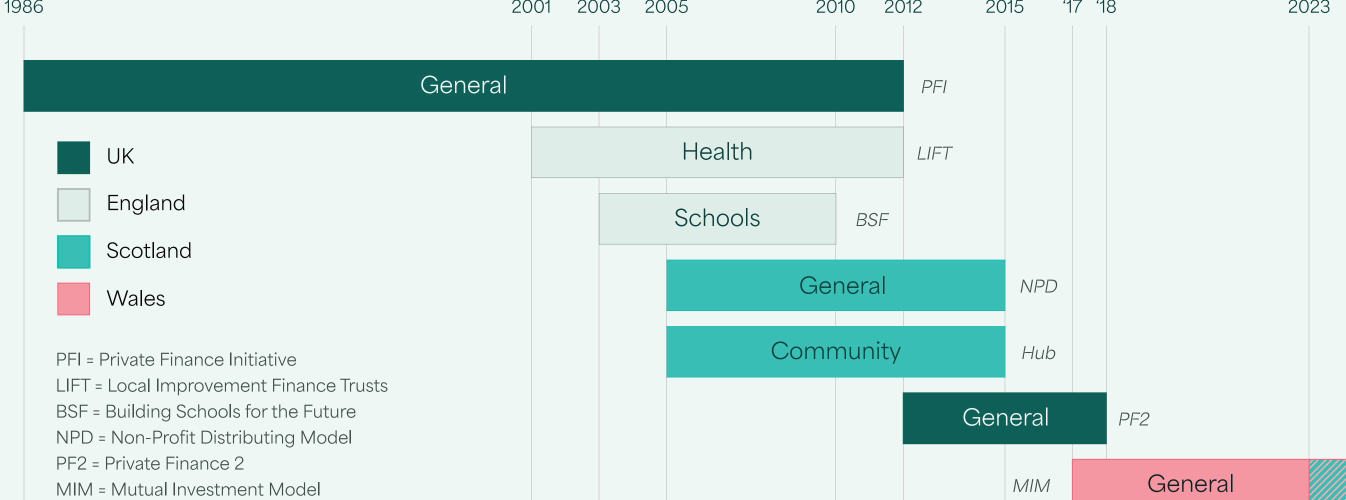
Private finance has been used to deliver infrastructure in the UK over centuries, with renewed use in the past 40 years. The most recent experience of large-scale use of public-private partnerships at UK level was Private Finance Initiatives (PFIs). They are often presented as a New Labour invention. However, the New Labour government was only able to deliver so many projects so quickly because the Conservatives under John Major had done much of the legwork in getting the model off the ground. The truth is, whoever had won the 1997 general election, PFIs would have expanded rapidly.

New Labour certainly ramped up their use, particularly for social infrastructure in public services such as schools and hospitals, with over 400 projects agreed in total between 2000 and 2008. The global financial crisis led to PFIs' demise as financing conditions tightened and political sentiment, particularly among Conservatives, began to shift away from this approach. PFIs were finally scrapped at UK level by the Conservatives in 2018, and despite a commitment to develop an alternative approach to public-private partnerships they have been largely abandoned by central government. This has left most projects dependent on unreliable public finance and drastically reduced their scale and speed of delivery.

Public-private partnerships in infrastructure are always evolving

With over a quarter of a century of learning behind us, public-private partnerships are always being adapted. In the UK, there have been at least six evolutions, far more experimentation than many policymakers may appreciate. Sector-specific models have been developed for healthcare, schools and community projects. There have been related but separate attempts to develop the second and third generation of public-private partnerships by the UK, Scottish and Welsh governments.

Figure 2: Timeline of PPP models across the UK



As it stands today, the central UK government is an outlier, with Scotland and Wales both operating a Mutual Investment Model (MIM) for projects including roads, schools and hospitals. The Labour government in Cardiff and Scottish National Party (SNP) government in Holyrood have led the development of a new partnership model with the private sector while the Conservative government in Westminster showed little interest or appetite. The Labor administration in the Australian state of Victoria has also pioneered the use of a precinct, or neighbourhood, regeneration approach. We explore each of these models in more detail below, alongside a regulated asset base approach used in utilities.

Scotland - the non-profit distributing (NPD) model

First introduced in 2005, the non-profit distributing (NPD) model was fully developed in Scotland after the SNP took power in 2007. Their manifesto pledged to introduce “a new system of infrastructure funding”.[31]

In light of SNP concerns about perceived excessive profit-making under previous approaches, the NPD model had three principles:

- enhanced stakeholder involvement in the management of projects;
- no dividend-bearing equity; and
- capped private sector returns.

Enhanced stakeholder involvement referred to the introduction of a “public interest director” who would not only sit on project company boards and have ordinary voting rights, but also have veto powers over key decisions such as refinancing. This was partly to give the public sector more visibility over the governance of project companies, similar to the approach taken under the second iteration of the UK government’s public-private partnership model in England (known as ‘PF2’), but went much further.

Although the capital structure for projects was typically similar to other public-private partnerships – 90% debt and 10% equity, all privately financed – the equity shares were non-dividend bearing, meaning that investors could not gain from any operating surplus above the rate of return agreed through a competitive tender at the start of the project. Any surplus would be cycled back into the public sector and/or charities. This effectively capped profits and, as Audit Scotland argued, likely meant that annual contract payments were higher as bidders sought to offset the lack of opportunities to increase their returns in other ways, such as through operating efficiencies.[32] This removed any financial incentive for private sector partners to improve performance.

Ultimately, the NPD model was relatively short-lived. It was stopped in its tracks in 2015 following the introduction of new EU accounting standards a year earlier. Just 15 NPD projects were undertaken in total, compared to 77 PFI projects in Scotland between 1996 and 2009.[33] As part of the Office for

31 ‘Manifesto 2007’, Scottish National Party, April 2007

32 ‘Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models’, Audit Scotland, January 2020

33 Ibid.

National Statistics (ONS)'s routine review of the accounting treatment of bodies and transactions in 2015, it identified several NPD projects for a classification assessment.[34] In October 2015, the ONS confirmed that the Aberdeen Western Peripheral Route road project would be classified as on the public balance sheet – both because of the degree of public sector control of the project company and because the public sector would be the main beneficiary of any overperformance benefits, i.e. profits – with a knock-on impact on all similarly structured NPD projects.[35]

Given Scotland's prescribed borrowing limits under devolution, this proved fatal. Holyrood's capital borrowing limit has gradually grown, most recently via the Scotland Act 2016, which raised it to a total of £3 billion, alongside an annual limit of £450 million. But the limit still places significant constraints on infrastructure development that worsen over time as the real-terms value of the cap diminishes. NPD projects remaining off-balance-sheet was vital to enabling additional investment.

Ultimately – and somewhat ironically – the non-profit distributing model failed precisely because it attempted to distribute profits, just to the government: an approach which fell foul of public accounting rules.

Wales – Mutual Investment Model (MIM)

In 2014, the Welsh Labour government had also committed to using an NPD model before classification rules changed.[36] At the budget in 2016, then finance minister Mark Drakeford hinted at the Welsh government's new approach, saying it would "use new innovative finance models" to deliver new healthcare and road projects.[37] This is what would become the Mutual Investment Model (MIM).

Like in Scotland, the Welsh government has a capital borrowing limit, last updated in 2016, of £1 billion in total with an annual limit of £150m.[38] When the Welsh government announced the MIM in 2017, it identified three projects whose total capital value at July 2022 was £1.4 billion – well above the capital borrowing limit.[39] This shows the additionality delivered through public-private partnerships in a devolved context, notwithstanding the 25-30 year annual service payment liabilities that accrue as a result.

34 'National Accounts Classifications, Forward Workplan', Office for National Statistics, June 2015

35 'Statistical classification of Aberdeen Western Peripheral Route (AWPR)', Office for National Statistics, October 2015

36 'Mutual Investment Model: Question and Answers for Local Authorities and Colleges', Welsh Government, March 2017

37 'Statement: The Draft Budget 2017-18', Senedd Cymru, October 2016

38 'The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework', HM Government/Welsh Government, December 2016

39 'Annual Report on the Mutual Investment Model 2021-22', Welsh Government, July 2022

The MIM builds on some of the features of the NPD model, PF2 and other previous approaches, with some novel additions. On public equity stakes, PF2 projects were around 10-15% of equity and Scottish "Hub" projects, used for smaller community projects, were around 40%. MIM projects are 15-20%. Whereas the NPD had made it impossible for equity investors to make gains above the originally agreed level (and so made the onward sale of equity stakes unattractive), the MIM sought instead to mitigate the potential for excessive gains by allowing for competitive tenders for a share of private-sector equity. This was to encourage the involvement of longer-term investors who were less likely to look to exit post-construction (albeit not used to date). This approach mirrored PF2.

The MIM went further than PF2 with the inclusion of community benefit provisions. These require project companies to:

- recruit and train economically inactive people;
- give opportunities for SMEs, voluntary organisations and local sourcing;
- positively impact the environment; and
- contribute to the local community through education, regeneration and community engagement.

Contracts also require commitments on prompt supplier payments and ethical employment.

As at May 2024, three planned programmes were all progressing.[40] The dualling of the A465 was agreed in 2020 and is currently under construction, with completion expected in mid-2025. In March 2024, the Welsh government reached financial close on a new cancer centre in Cardiff, with construction expected to begin soon and completion within around three years thereafter. The Sustainable Communities for Learning programme has so far agreed a new building for 1,300 pupils in Flintshire, alongside three new primary schools in Rhondda Cynon Taf, all delivered to net zero standards and currently scheduled for completion in late 2024 and early 2025 respectively. The Welsh government has said that all MIM projects are assessed for value for money against a public sector comparator, but this analysis has not been made public.[41]

Scotland – MIM

Following the ONS reclassification, in 2019 the Scottish Futures Trust (SFT) was tasked by the Scottish government with examining alternative "privately financed profit sharing schemes to deliver additionality of investment".[42]

The SFT landed on two broad options: evolving the traditional public-private partnership model of 100% private financing or adapting the Welsh MIM, with differing degrees of government equity. This implied in all cases long-term

40 'Mutual Investment Model Report 2022-2024', Welsh Government, May 2024

41 'Mutual Investment Model: Question and Answers for Local Authorities and Colleges', Welsh Government, March 2017

42 'An options appraisal to examine profit sharing finance schemes', Scottish Futures Trust, April 2019

arrangements with private sector partners to design, build, finance and maintain infrastructure assets – the classic 'DBFM' model – repaid via annual payments over 25-30 years. There was no reinventing the wheel. But, as with the Welsh MIM, there were options to adapt and improve the model.

Table 2 summarises the SFT's analysis of the different models explored against the Scottish government's six criteria.

Table 2: Scottish Futures Trust analysis of different models of public-private partnership

Test	NPD	Evolved PPP	MIM 20%	MIM 30%	MIM 40%
Additionality	No, on balance sheet	Yes, private-sector	Yes, model proven in Wales	Possibly no, may breach balance-sheet rules	Possibly no, may breach balance-sheet rules
Value for money	Yes, capped returns and public surplus	Partly, all returns to private sector	Yes, equity returns and enhanced governance	Yes, equity returns and enhanced governance	Yes, equity returns and enhanced governance
Profit sharing	Yes	No	Yes	Yes	Yes
Affordability	No, needs capital budget	Yes, with safeguards	Yes	Yes/partly, larger upfront capital needed	Yes/partly, larger upfront capital needed
Market deliverability	Partly, some concern about appetite for revenue-funded contracts	Partly, some concern about appetite for revenue-funded contracts	Partly, few delivery examples to date	Partly, some concern about appetite for revenue-funded contracts	Partly, some concern about appetite for revenue-funded contracts
Transfer financial risk	Yes, no public stake	Yes, no public stake*	Yes/partly, moderate public stake	Partly/moderate/ high public stake	Partly/moderate/ high public stake

*The collapse of Carillion in 2018 showed there is often some degree of financial risk to the state if PPPs fall over (which is rare) and the state feels compelled to bail out the project company.

The SFT concluded that "a Scottish version of the Welsh Mutual Investment Model with up to a 20% risk capital stake has the closest alignment to the criteria established for the review." Crucially, to be effective, the SFT concluded that it needed to be linked to a pipeline of projects for which the preferred model would be used. For international investors, there would need to be a visible pipeline of large, complex projects to incentivise their engagement.

Ultimately, the SFT exercise showed several things. First, that the basic design of these contracts used across the world remains the main building block of such arrangements. Second, although public stakes bring greater transparency and accountability benefits, they have to be managed carefully to balance scrutiny with any perceived influence. Third, seeking "profit" or a return for the public sector is not optimal policy. As the SFT noted, it makes more value-for-money sense to focus on achieving the lowest possible long-term contract payment for a good quality asset. Fourth, a 15% government stake is a safer option from an accounting perspective than higher stakes while securing governance oversight by being able to appoint a director. This is consistent with both the Welsh MIM approach and PF2.

The Scottish government adopted the SFT's recommendation. In its Infrastructure Investment Plan to 2025-26, the Scottish government includes the MIM

as "the current model for private finance projects".[43] In late 2023, the Scottish government announced that two sections of the dualling of the A9 would be delivered via MIM contracts, with the contract award expected in summer 2025.[44] This will be the first time that the Scottish MIM is used.

Regulated asset base approach and government support packages - Thames Tideway Tunnel

The Thames Tideway Tunnel (TTT) used an alternative method – known as a regulated asset base (RAB) approach – for private sector providers to finance infrastructure in the privatised utilities sector. Unlike other models discussed in this report, which are taxpayer-funded, this approach is paid for through utility bills, also called a "user pays" approach.

The TTT is a 25km sewer stretching from west to east London. It aims to reduce sewage spills by adding capacity to the London sewer network. It is being funded through charges added to Thames Water customers' bills throughout its expected 120-year lifecycle. Tunnelling was completed in 2022 and the project is due to be fully operational in 2025. This approach is also being used for the Sizewell C nuclear plant, a departure from the Contracts for Difference (CfD) approach taken with Hinkley Point C, and is being considered for a number of reservoirs in the water sector.

Government support package

Having reached financial close in 2015, the TTT is one of the best recent examples of private finance working effectively to deliver major infrastructure projects. A key innovation was the use of the RAB model for large projects combined with a 'Government Support Package' (GSP). Early estimates suggested that the annual impact on bills from the project would be £70-£80 a year (2014-15 prices). More recent projections suggest it will now peak at £20-£25 – 70% below the level at which the government gave the project the green light.[45] This did not happen by some magic of the market but because the government, to its credit, stepped in to take on some of the risks associated with the project that the market would have been unlikely to bear or bear at reasonable costs, significantly reducing the cost of capital. These were principally for low-likelihood, high-impact events that the state would likely have to underwrite in reality anyway.

The support package included:

- a **30% cap on cost over-runs** – anything above this would either be covered by an equity injection by the Department for Environment, Food and Rural Affairs (DEFRA) or the project would be discontinued and compensation paid;

43 'Infrastructure Investment Plan 2021-22 to 2025-26: Progress Report for 2022-2023', Scottish Government, June 2023

44 'Delivery plan for remaining A9 dualling projects announced', Transport Scotland, December 2023

45 'Review of the Thames Tideway Tunnel', National Audit Office, March 2017

- a **short-term lending facility of up to £500m,** accessible in the event of financial market disruption and the project company struggling to access debt markets;
- **insurance** beyond that commercially available in the market;
- clarity on the circumstances in which the government could determine the project uneconomic to continue and the **compensation** payable; and
- **a special administration offer agreement.**

This support package was crucial in creating an investable project for private sector partners. The project model and support package went through several iterations, in discussion with credit rating agencies, to design a proposition that would attract an investment-grade rating, which is a requirement of the water regulator Ofwat, and also to be attractive to pension fund investors specifically.

Another notable part of the project design was a package of 52 "legacy benefits" that the project company committed to deliver across five areas: environment; health, safety and well-being; economy; people; and place. This included commitments such as recruiting 10% of the workforce who were previously unemployed, paying all staff at least the London Living Wage and a 1:50 target for the number of apprentices within the workforce (which was exceeded). These were not mandatory requirements but seen as a win-win, helping to build public support for the project while also ensuring, for instance, the project has sufficient access to the skills it needed.

The use of a GSP will neither be appropriate nor necessary for most projects. However, large projects that carry significant risk – such as tunnelling through the complex space beneath cities – may benefit from similar approaches in future. In the government's 2020 review of infrastructure financing, the TTT project was described by stakeholders as "a poster child for how these projects should be managed".[46]

Austrailian State of Victoria - Precinct PPPs

Outside of the UK, the Victoria state government in Australia, led by the Australian Labor Party, has pioneered the use of what have been dubbed "precinct PPPs". Traditionally, public-private partnership projects have been planned and designed largely as single pieces of infrastructure, such as a hospital or school. By contrast, precinct public-private partnerships seek to build and regenerate communities by leveraging wider economic and social benefits from individual projects. The objective is to use the core infrastructure asset as an anchor around which other economic and social infrastructure, as well as commercial activities, can be developed. Especially where there are existing brownfield sites, the tendering process can be used to invite innovative thinking from private sector partners about how to maximise the economic and social potential of unused or underused land, not just to construct a hospital or other major building in isolation but to transform communities. As part of the new UK government's National Wealth Fund, there may be opportunities to deploy this approach in relation to, for example, port upgrades.

46 'Infrastructure Finance Review: Summary of consultation feedback', HM Treasury, November 2020

Footscray Hospital

A recent example of this approach being used is for a new hospital in the Melbourne suburb of Footscray, where a 1950s building is being replaced with a new facility.[47] The hospital was procured with additional public policy requirements and commercial opportunities under a "Value Creation and Capture Framework". The aim of this framework was "to identify economic, social and environmental benefits above and beyond what would otherwise be achieved as a direct consequence of the Project". As the Victorian Health Building Authority, the public body responsible for project delivery, described: "While a hospital first and foremost, it will also be a catalyst for change, supporting the development of a broader health, education, research and community precinct."[48]

The project also includes a partnership with Victoria University to lever in additional investment, with the university funding research and education space within the hospital site, as well as a footbridge to connect the site to the university campus. The commercial facilities that will be developed complementary to the hospital itself include childcare, a gym, a pharmacy, a medical clinic, food and drink outlets, other retail and office space, and consulting suites. The winning private sector partner also committed to creating a community hub for additional services and local groups, as well as an Aboriginal gathering place.

Alongside these, the public authorities specified a series of policy outcomes required in the tender (see Table 3). Crucially, repayments are linked to the private partners' performance against some of these commitments, with underperformance resulting in reduced payments. This reinforces the approach taken under the Welsh MIM and Thames Tideway project where ambitious public policy requirements have been delivered alongside the benefits of the core project.

Table 3: Policy outcomes contracted for as part of the Footscray Hospital project

Policy outcome	Minimum requirement	Contracted outcome
Local content during development	90%	90.4%
Local content for services	80%	92.3%
Apprentices, trainees or cadets carrying out work during development	10%	10.5%
Apprentices, trainees or cadets carrying out services	10%	10%
Social procurement target	1.5% of design and construction (D&C) price	1.5-1.8%
Aboriginal business procurement	1% of D&C price	1.5%
Disability procurement	-	0.2%
Social enterprise procurement	-	0.2%
Victorian Aboriginal participation	2% of hours	2-2.5%
Victorian disability employment	-	1-2%
Disadvantaged training and employment	-	1-5%
Public Housing Tenant Employment Program	Minimum 6 public housing tenants	At least 6

47 'New Footscray Hospital Project Project Summary', Victorian Health Building Authority, May 2021

48 Ibid.

The project reached financial close in March 2021 and is expected to begin operations in September 2025. The public-private partnership approach chosen for this model was tested against a public sector comparator to assess value for money. An equivalent public sector approach was estimated to cost £2.2bn over the lifetime of the project, compared to £1.8bn via a precinct public-private partnership (July 2020 prices and sterling-dollar exchange rate), generating estimated savings of 15%. A large part of the estimated saving comes from transferring risk to the private sector, particularly construction and operational risk. This expected overperformance includes factoring in higher borrowing costs for the private sector compared to government. A 2020 University of Melbourne study of 11 social infrastructure projects across Australia and New Zealand found that nine performed at or below the equivalent public sector cost.[49]

Table 4: Comparison of Footscray Hospital precinct PPP approach versus a traditional public sector approach

Public sector comparator	Private sector contract cost	Estimated savings	Estimated savings
Net present cost (NPC), £ m	NPC, £ m	NPC £ m	%
2,154	1, 831	323	15

Note: converted to GBP using ONS average Sterling-Australian dollar exchange rate in July 2020

Conclusion

Public-private partnerships remain in use in infrastructure across the UK and elsewhere. This tells us several things. First, there remains a demonstrable need for private finance to play a role in major infrastructure projects. Second, there are workable adaptations to the existing model that have been developed to deal with previous weaknesses and to generate substantial social goods alongside core project benefits. Public-private partnerships are dynamic – it is not a binary choice between old approaches or nothing. Third, there is no getting away from their basic building blocks, which include a long-term contract that requires the public sector to commit in advance to a broad payment level. Investors require this certainty over revenue in order to take on the risks associated with such long-term projects and help to deliver better value for money outcomes.

49 'Measuring the value and service outcomes of social infrastructure PPPs in Australia and New Zealand', University of Melbourne/Drum Advisory, April 2020

A new model: Infrastructure Investment Partnerships (IIPs)

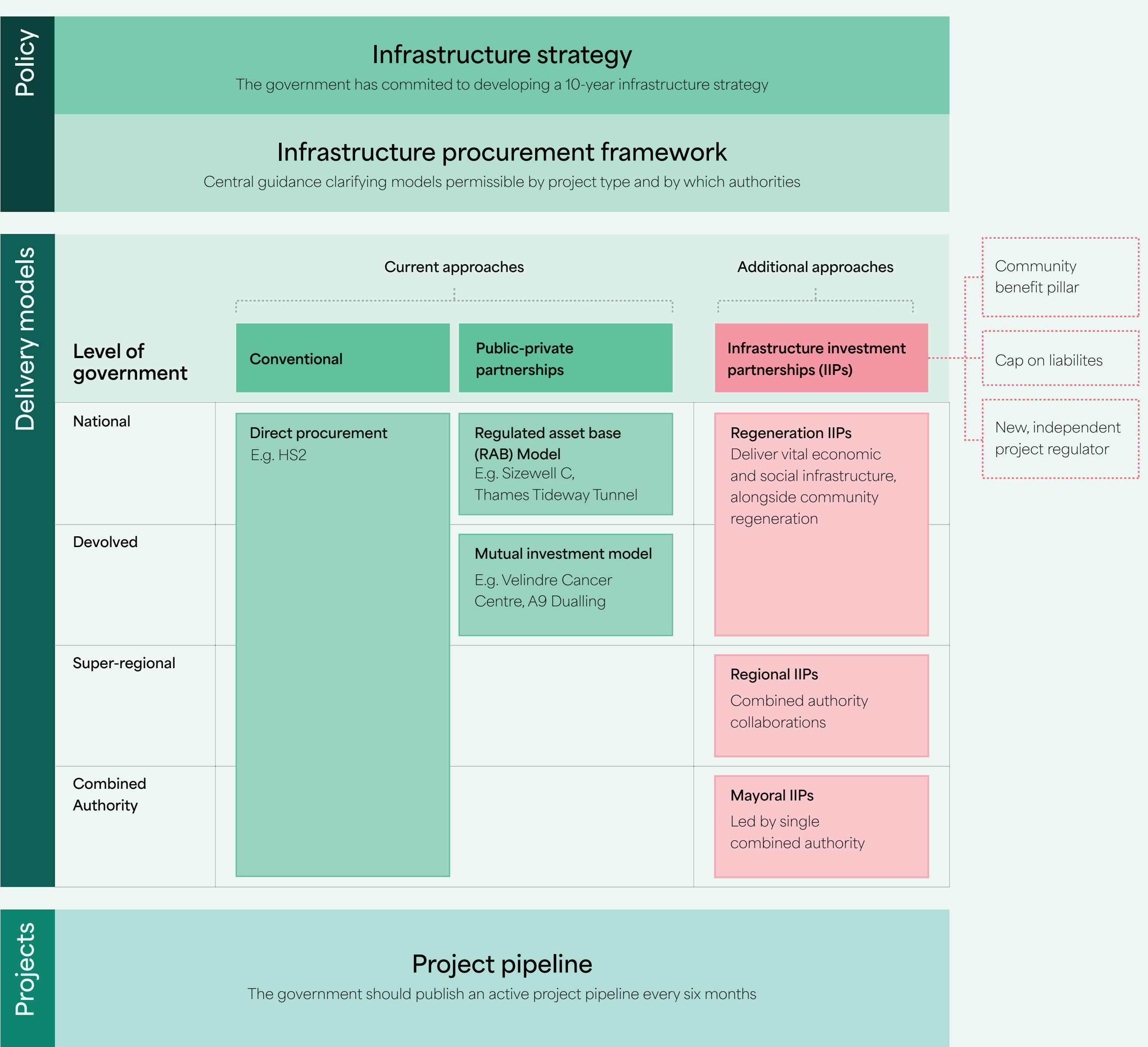
Drawing on the analysis in the rest of this report, our recommendations for how the UK government should approach public-private partnerships in infrastructure are as follows.

Develop a new infrastructure procurement framework that includes a new Infrastructure Investment Partnership option

1. Ahead of the spring budget, the government should **agree a new procurement framework for delivering infrastructure projects that includes an option of new public-private partnerships – Infrastructure Investment Partnerships (IIPs).** This framework should set out the approved range of procurement approaches for infrastructure projects, including traditional direct procurement, a Regulated Asset Base (RAB)-based approach and the Mutual Investment Model (MIM), alongside a new model of public-private partnership: IIPs. IIPs should learn from, and build on, the MIM developed and delivered by the Labour government in Wales, as well as the "precinct" approach taken by the Labor administration in the Australian state of Victoria. The new procurement framework should include clear strategic guidance on when each approach should – and should not – be used (see "Being mission-driven" below). A market sounding exercise will be an important early step in gauging appetite for the deliverability of the framework, but these have already proven to be workable models. Thereafter, public sector organisations should be invited to bring forward projects that meet these strategic objectives, supported by the Treasury. Preference should be given to projects that deliver infrastructure at scale, whether single projects or programmes of smaller individual projects. Figure 1 below shows how this new framework would operate.

2. **New 'Regeneration IIPs' should be part of any new framework.** A 'Regeneration IIP' would use projects as anchor investments for the regeneration of the neighbourhoods in which they sit. This would ensure that a new government maximises the economic and social impact of these projects, rather than merely building isolated pieces of infrastructure. Crucially, this approach would also deliver infrastructure at lower cost to the public sector by allowing private sector partners to develop the commercial potential of other unused land on site, within parameters set by government. The government should work with private sector partners to ensure a significant element of Regeneration IIPs involves delivering supportive social infrastructure, such as key worker housing or childcare facilities, and that they ensure the areas regenerated are sustainable and resilient, through carefully planned supporting infrastructure, such as flood defences and drainage systems. Under the last Labour government, English Partnerships – an agency set up by then Deputy Prime Minister John Prescott – helped to identify brownfield sites and facilitate their redevelopment, including by attracting private finance. There may be a useful role for a similar body to support the development of a pipeline of Regeneration IIP projects today.

Figure 1: Proposed new infrastructure procurement framework



Ensure fiscal sustainability

3. **Set a share of government revenue cap on total repayments** arising from IIPs in a single year. This will ensure that, in aggregate across the public sector, costs are controlled and remain fiscally sustainable year on year. This should comprise both an annual cap, so that liabilities arising in any given year do not breach a sustainable level, and an overall total cap. In 2021-22 (latest available data), current repayments under previous approaches were 0.5% of revenue.[50] Under George Osborne, the UK government set a £70 billion "control total" on PF2 liabilities. The Scottish government has a 5% of revenue limit on capital investment liabilities.

50 'Whole of Government Accounts: year ended 31 March 2022', HM Treasury, March 2024

4. **Ensure safeguards are in place to prevent excess profits.** Although profit incentives are a powerful tool that can be used to drive efficiency and performance when designed well, there have been instances historically, particularly in early projects, where this has not been the case. This was particularly evident following large fluctuations in financing conditions, where project companies were able to refinance, sometimes generating large returns. This was dealt with previously by ensuring that the Westminster government benefitted from a proportionate "gain share", and similar provisions should be included in future. Others, such as the Scottish government, attempted to eradicate the secondary market for equity stakes as another mitigation against excess profits. However, doing so would likely discourage many investors from participating, weakening the competitive tension that is needed to deliver good value for money outcomes and likely driving the cost of equity higher than it would otherwise have been. Ultimately, returns should correlate to risk and performance, and where the private sector takes on substantial risk and delivers contracts well it should be appropriately rewarded.

5. **Develop an evidential base** on the lifecycle costs of equivalent traditionally procured projects. This is the only way in which robust, real-world comparisons can be made between the different approaches and is crucial to determining our long-term strategy for the use of public-private partnerships in infrastructure. Where such evidence has been developed, most recently in Germany, this has required the public sector to open up data to researchers to be able to develop comparative measures of the lifecycle value-for-money of public and private approaches.

Be mission-driven

6. Alongside a new framework, the Treasury should **actively develop a pipeline of projects** with departments, agencies and mayoral combined authorities, **aligned with a mission-driven approach to government.** There is little value in developing a new framework for delivering infrastructure projects if not done so alongside a project pipeline and clarity over how those projects will be financed and sequenced. Co-ordination is also important to ensure that adequate utility services, such as energy and water supply, are in place and do not unnecessarily delay project delivery. This will give all private sector partners, especially supply chain companies, visibility over project opportunities to allow them to scale up their capacity accordingly and will have positive spillovers for jobs and training. There must also be geographical balance within the overall portfolio to ensure that economic and social benefits are felt in all parts of the UK. Each of the relevant Mission Delivery Boards could be tasked with developing a pipeline of projects for their mission. This should include publishing the full pipeline of active projects and forthcoming opportunities every six months to provide visibility to investors and supply chain companies.

7. **Adopt an outcomes-based approach to procurement,** ensuring that tenders encourage bidders to identify new and novel ways of delivering desired service outcomes. For instance, instead of procuring a hospital, authorities may procure services that improve hospital capacity and wider social outcomes, which could be done through other means, such as

community level developments. Achieving best value-for-money and encouraging innovation in delivering these projects requires an open approach to procurement. The new government should also consider reimbursing a share of the costs associated with bidding for these projects if competitive tension is difficult to maintain.

Align IIPs with the government's industrial strategy

8. **Set up a Major Projects Skills Taskforce** to identify the key gaps and levers to quickly tool up the public sector to manage a significant pipeline of infrastructure projects delivered through public-private partnerships. This should include consideration of how major projects could be utilised to support the development of industrial skills priorities and how they could be sequenced to develop and enhance public sector capabilities to manage projects effectively. The Taskforce should report to the Growth Mission Board within a matter of months, providing recommendations to be taken forward by relevant departments. Having a credible pipeline of major projects is an important part of attracting talented individuals who will want to develop their careers by working on significant projects. Currently, many of these individuals are being attracted to other countries where major infrastructure programmes are being carried out.

9. **Formalise the government's policy on the use of guarantees for major projects.** The use of guarantees is an industrial policy tool that should be used judiciously to enable the delivery of the industrial priorities of the new government. The Government Support Package used for the Thames Tideway Tunnel was an effective means of reducing the cost of capital, and thus the cost to consumers from the project. This was broader than the government's previous UK Guarantee Scheme. It is important to recognise that not all risks can – or should – be transferred to the private sector and that formalised support can significantly increase efficiency without creating large real-world public liabilities. This would create greater certainty for investors and attract a broader range of global players to the UK market. Where such support packages can be used to significantly lower the cost of construction at relatively low risk to the government, thereby reducing the cost to taxpayers, they should be considered.

Require contractual commitments on community benefits

10. **Include a community benefits pillar within all IIP contracts** to maximise the economic and social legacy of projects for the communities in which they take place. Core objectives should be performance-linked to sanction underperformance against these measures. This should include employment and training opportunities, as well as support for community projects and local businesses. These requirements have already been deployed in Wales via the Mutual Investment Model and through the legacy commitments of the Thames Tideway Tunnel, so should be a mandatory feature of all IIPs. Given the UK's economic inactivity challenges, partly driven by healthcare needs, reablement of economically inactive workers could also be part of this pillar, supporting wider public policy objectives. Rather than over-specifying community benefit requirements within the procurement process, the government should produce guidance for bidders to

encourage innovation in how these projects can deliver a lasting legacy beyond the core infrastructure.

Give regions more control over their infrastructure

11. **Allow combined authorities to use IIPs** where there is a strong business case, with a bias towards projects that span regions, allowing these authorities to take ownership of their own infrastructure priorities. Each authority should be subject to a cash limit which must remain within the overall public sector cap. There are several reasons why it makes more sense to deploy these projects at a combined authority level, or a broader sub-national level, than for individual local authorities to do so. First, combined authorities will play an increasingly strategic role in infrastructure development within their regions. Decisions on strategic infrastructure are best made at regional - and sometimes pan-regional - level, and it is to this use that these projects are best deployed. Second, economies of scale mean that the overall impact of annual repayments should be less than if local authorities were to act individually. There may be instances where it makes sense for large local authorities to use this new approach but the assumption should be a strategic, regional and pan-regional preference. It will be important to ensure that combined authorities are adequately equipped given these would be new programmes and powers, and many authorities remain at relatively early stages in building up their administrative capacity. This should all be supported by introducing single, integrated funding settlements for combined authorities to ensure that transport, skills and other policies are aligned behind these projects. This would help regional authorities to, for instance, plan for and mitigate potential bottlenecks in skills supply. There is also a need to guard against the project pipeline resulting in competition between regions for the same resources.

Build a new culture of long-term partnership

12. **Only award contracts to private sector partners committed to building collaborative relationships.** A key part of the tender process should be concerted scrutiny of bidders' ability to keep to the public policy and community benefit requirements of projects. This may include requiring project companies to set up a governance structure – such as an IIP Council (see below) – that sits below the company board and acts as the main interlocutor with the public sector on a day-to-day basis. Failure to meet these obligations should result in payment deductions. Bidders should be assessed for their cultural fit to deliver a project of this kind over the long term. The overall objective should be to shift from a deal-making approach to setting up effective, long-term relationships. Strong alignment of project and public policy incentives is vital in establishing the right working culture.

13. **Agree clear "ways of working" terms at the start of contracts** that public and private sector partners co-design and commit to. It should be a mandatory requirement to set out how to operate a contract from the perspective of each side as part of agreed documentation. It should be written as an operational guide, not legal text. Performance against these commitments may be adjudicated where necessary by a new regulator (see below). Creating the right culture, attitude and professional respect

between all sides is the best route to success in delivering these infrastructure projects.

Manage through more robust governance structures

14. **Bring social infrastructure within the National Infrastructure Commission (NIC)'s remit.** Currently, the NIC – which the government has proposed to merge with the Infrastructure and Projects Authority (IPA) to form a new National Infrastructure and Service Transformation Authority – only advises government on economic infrastructure, namely energy, transport, water, waste, flooding and digital. By bringing social infrastructure within the remit of the NIC, or its successor, there would be greater visibility over the infrastructure investment need across public services, including healthcare, education, justice and youth services, alongside nature and culture, among others. This approach would ensure more transparency and comparability over time in the state of the public realm and place social infrastructure on a par with economic infrastructure in terms of importance in policy.

15. **Require every public sector body that uses IIPs to have active contract managers.** This should be coupled with a central unit that acts as a centre of expertise and supports contract management teams. Failure to sufficiently resource contract management teams should result in sanctions, such as being restricted from undertaking further projects until improvements are made. The government's planned Office for Value for Money (OVM) should work closely with the public bodies in developing project business cases.

16. **Include regular service performance reviews in every contract.** Their regularity will depend on the complexity of contracts, but these would help to ensure that projects remain active collaborations.

17. **Create a new, independent regulator** to neutrally arbitrate on disputes between project participants. Its principal purpose would be to prevent disputes descending into expensive and time-consuming legal action. The regulator would oversee and hold accountable both public and private sectors. This body would also provide confidence to the public and lawmakers that contracts were being managed properly and that both sides were meeting their obligations, including by producing an annual report to parliament. It would not review whether contracts were value for money. The regulator could also arbitrate on disputes related to historical contracts.

18. **Consider creating IIP Councils on projects to facilitate regular dialogue** between public and private partners. These would be entirely separate to project companies and have no decision-making role or powers. They would act as the main interface between project companies and public authorities and meet regularly. This could be the forum in which regular service performance reviews take place.

19. **Consider taking public equity stakes in projects only where there is a clear value-for-money benefit.** This judgement should be made case-by-case and the government should take a cautious approach. Equity stakes are not a quick fix to complex governance challenges. These stakes have

mostly been justified on the basis of entitling the public sector to appoint a director on project company boards. However, the emphasis should be on developing a robust contract management system in the round. There is a risk with a director that most of the oversight responsibilities are placed – explicitly or implicitly – on that one individual, increasing single-point-of-failure risk.

Conclusion

The infrastructure challenges facing the new government are different to those faced by the previous Labour government when it took office in 1997, both in scale and character. The long shadow of austerity means the government has inherited a public realm in arguably even worse condition. This is combined with a generational uplift in infrastructure investment that is required to deal with economic growth, net zero and productivity challenges that were either absent or less acute in the late 1990s. Our fiscal capacity today is also much more constrained. Finally, unlike in 1997, the new government has not inherited a well-developed programme of public-private partnerships in infrastructure and will have to rebuild the system at UK level from close to a standing start.

This will require a new approach that breaks with the chronic short-termism that has come to characterise decision-making. This report argues that a new framework for infrastructure procurement that includes Infrastructure Investment Partnerships (IIPs) should be a key part of this new approach. We do not have the luxury of waiting another five, ten or fifteen years for something to turn up to reboot our economy. We must make pragmatic choices today that show the public that change and progress are possible. Delivery is the only way to combat cynicism and apathy, which are tacitly encouraged by those who want people to believe progressive change is not possible.

The government needs all the tools available to deliver quality, good value-for-money infrastructure. Public-private partnerships are an obvious missing piece in the existing toolkit. A new approach should learn from and build on the Mutual Investment Model developed and delivered by the Labour government in Wales, as well as the precinct approach taken by the Australian Labor administration in the state of Victoria.

The key pillars should be the following.

- Developing a new infrastructure procurement framework that includes new public-private partnerships – Infrastructure Investment Partnerships (IIPs)
- Ensuring fiscal sustainability
- Being mission-driven
- Aligning IIPs with the government’s industrial strategy
- Requiring contractual commitments on community benefits, and in some circumstances encouraging a wider neighbourhood regeneration approach
- Giving regions more control over their infrastructure
- Building a new culture of long-term partnership
- Being managed through more robust governance structures

Ultimately, we face a choice. Stick with the existing approach, which has led to a predictable cycle of unreliable funding, neglect of existing infrastructure and scaling back of vital projects. Or we can build a new, progressive partnership between the public and private sectors. The scale of the infrastructure challenge calls for pragmatism over ideology, and realism over wishful thinking

about the state's capacity to tackle these challenges alone. Value for money must remain central. But we should not face the scale of the task with one of the major tools left out of the toolbox.

FGF