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CBI/KPMG infrastructure survey 2013

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September 2013

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Foreword John Cridland

This year's infrastructure survey comes at a time of cautious optimism for the UK economy. The seeds of recovery are starting to sprout and confidence is slowly rising. With the CBI's economic forecast taking on a healthier glow than I can remember in recent years, we must do everything in our power – business and government – to maintain this momentum.

There's no one single way to ensure that our progress back to prosperity can gain pace, especially with continued downside risks from the eurozone and other uncertainties that come with being part of a global economy. But a concerted focus on infrastructure investment plays to both short and long-term wins. And in order to lay the right foundations for future growth, we need parties of all colours working together to champion and prioritise the right projects at the right time.

In the short term, we know that regenerating our transport networks, rolling-out the next generation of digital infrastructure, and renewing our energy supply creates jobs and boosts activity in supply chains, while also generating business confidence – so often the missing ingredient of the economic downturn.

In the long term, these projects make the UK an attractive place to do business and boost our competitiveness – bringing our cities closer together, incentivising our exports, and encouraging businesses to invest.

I have little doubt that ministers share my enthusiasm for progress. The government's recent publication *Investing in Britain's future* set out some bold ambitions and flagship projects which, if delivered, will provide a significant boost to UK competitiveness. We have seen an extension of the UK Guarantee Scheme, a proposed surge in capital investment, new road announcements and a push to inject greater commercial nous at the heart of Whitehall decision-making – all valuable improvements. However, as this year's survey demonstrates, business confidence in government to see these ambitions through is low.

With only a third of respondents expecting the government's policies to have a positive impact on infrastructure in the next five years, the outlook is uncertain.

Looking at recent media headlines, it is little wonder that business leaders are confused. They see HS2 – the government's flagship rail project – subject to a sudden increase in cost and little explanation from ministers. For a project of national importance, there is a vacuum of vocal support for the benefits it should bring to businesses up and down the country. With four in five businesses looking at the quality of our transport networks for future investment decisions, government should be doing all it can to make the case for this necessary investment.

On energy, more businesses this year are concerned about future supply. With significant investment hanging on the passage of the Energy Bill and the cost of energy becoming a political football, the need for a balanced and affordable energy mix is thrown into sharp focus. Yet with the debate on fracking becoming ever more fractious, more political effort is needed to make the case for this and other sources of energy to keep the lights on at an affordable price.

With 18 months left of this parliament, all eyes should be focused on delivering the small, short-term wins while laying the groundwork for the big decisions. That's why the CBI is calling for all parties to commit to supporting key actions that should boost infrastructure investment now and in the future. We need business leaders and politicians working together to get Britain building.

John Cridland

John Cridland
Director-general
CBI

Foreword Richard Threlfall

It's been a good summer. The sun has shone, temperatures have soared and the feel-good factor has returned. UK house prices and mortgage lending are up and retail sales have jumped. There is a sense that perhaps, at last, we are seeing the light at the end of the tunnel. Now we must focus on nurturing those green shoots of recovery. Action now, to improve the quality, reliability and coverage of our infrastructure, is critical to that.

It is welcome that over the last year the coalition government has continued to prioritise infrastructure investment notwithstanding its programme of austerity. The 2013 budget set out the government's planned infrastructure spend through the next parliament, giving, for the first time, a seven-year forward view. But more than 65% of the UK's infrastructure is privately procured and financed. If our infrastructure spend levels are really to reach the more than £40bn a year required for the UK to remain competitive in the global economy, we need private investment levels to increase. That will only happen when business confidence recovers.

This report provides the third annual assessment by the CBI and KPMG of business views on the state of and outlook for the UK's infrastructure. While there remain some bright spots, in particular digital, it is disappointing to hear businesses report once again a sense of more rhetoric than action, and this is overlaid now by a fear that too many critical investment decisions are being pushed back to beyond the next election. We need decisiveness and action now if those green shoots are not to wither.

Businesses are clear about where government needs to focus its efforts. There is growing dissatisfaction with the state of both domestic and international transport networks and increasing concern on the future sufficiency of energy supply. The government's commitment to increase investment in roads is welcome but until bottlenecks on the national road network are removed and the condition of our local road network visibly improves, the competitiveness of our businesses will be impaired.

Similarly businesses are increasingly concerned that the UK is deficient in its links to emerging economies. The pace of globalisation will not slow whilst the UK gets it act together. We need to invest now.

Where government can really make the difference is by providing clarity as to its overall vision for infrastructure development. In its April 2013 report, the Public Accounts Committee concluded that the National Infrastructure Plan is *'a list of projects, not a real plan with a strategic vision and clear priorities'*. These challenges suggest a strong case for putting in place a framework for infrastructure planning that can transcend the election cycle and create long-term stability for infrastructure developers and investors.

But that will take time. In the meantime our businesses are competing each day, every day in the global market, and we need to be investing now in building great infrastructure that is a help, not a hindrance to our entrepreneurial efforts. We know what good looks like and should look like: building Crossrail, committing to HS2 and Thames Tideway Tunnel, getting on with new nuclear and investing in south east hub capacity, to take just a few examples. Sometimes we seem to have the vision, and sometimes we lose it. At this critical moment in our economic recovery, let's try harder to be the best we can.

R. Threlfall

Richard Threlfall
Partner, UK head, infrastructure, building and construction
KPMG

Overview
The third CBI/KPMG infrastructure survey

- The survey was conducted in a seven-week period from May to July 2013
- There were 526 respondents, from businesses of all sizes and sectors across the UK, including investors in, providers and users of infrastructure
- The survey was completed by senior executives, including chief executives, managing directors, directors of finance and investment and chief operating officers.

The UK's investment environment is improving, but confidence in government delivery remains flat

- The UK has become a more attractive location to invest in infrastructure since 2011 by comparison with other EU states and much of Asia, but infrastructure companies still rate Australasia and North America as better destinations
- Despite this progress, businesses as a whole are increasingly doubtful that the improved policy climate will translate into tangible impact on infrastructure investment. Only a third of companies (35%) believe government policies will have a positive effect over the next five years – the same as 2012, but a lower proportion than in 2011 (39%)
- Just 28% of businesses expect to see improvements to the UK's transport infrastructure over that period, an increase of only 1 percentage point on 2012
- Businesses have become much more sceptical about the prospects of improvement in energy infrastructure, with the balance between those with negative expectations relative to positive widening from -34% in 2012 to -54% in 2013.

Infrastructure weaknesses could put investment and growth prospects at risk

- Quality or cost of infrastructure have a significant impact on 98% of companies when making investment decisions
- Businesses attached the greatest weight to the quality and reliability of transport (85%) and digital networks (80%) for their investment decisions
- Energy is another critical factor, but here cost is more important than reliability, with 77% of companies rating energy affordability as a significant factor in investment decisions
- The UK has a competitive lead in digital infrastructure (with a positive balance of +13%), but is ranked internationally below average by respondents for its transport (-37%) and energy infrastructure (-22%)
- Our closest competitors continue to outstrip us in terms of their infrastructure, with 57% of companies ranking the US as superior to the UK and 54% rating other EU members more highly, but the UK is increasing its lead over the infrastructure of emerging markets (with the UK rated as better by 76%).

UK infrastructure needs to keep pace with our global trading ambitions

- International transport connections to emerging markets are either crucial or very important for almost half (49%) of all companies in making their investment decisions, rising to 85% for the biggest multinational firms
- Of firms requiring connections to emerging markets, less than half (47%) are satisfied with their availability – down from 60% in 2011
- Respondents increasingly view direct flights to all locations as important to their businesses, with 57% of firms viewing direct flights to China as either crucial or important
- While satisfaction with direct flights to the EU and US remains high, just 37% of companies viewing direct flights to China as crucial or important are satisfied with their availability
- Only 28% of respondents expect improvement in the UK's international air links in the next five years, while 31% expect them to deteriorate.

Major pinch-points in the UK's transport system remain problematic

- The quality of domestic transport connections makes a real difference to businesses: nearly two thirds of firms (62%) say it has an impact on their investment decisions, rising to 82% for large multinationals
- Dissatisfaction with domestic transport links is on the rise, with the proportion of businesses voicing dissatisfaction jumping from 28% in 2011 to 49% in 2013
- Businesses' biggest concern is roads, with almost three quarters (73%) of respondents seeing a deterioration in local roads in the last five years and almost half (46%) seeing deterioration in the motorway network
- The top priorities identified by businesses to improve the road network are maintenance work and tackling congestion
- The pace of improvements to most public transport has quickened, with almost two thirds (62%) seeing improvements to tube and metro services, and 40% seeing improvements to intercity rail – both up on 2011 figures
- However almost half of all respondents (45%) believe commuter rail services have deteriorated in the last five years.

With huge private investment in our digital networks, businesses can do more to exploit new opportunities

- The great majority (83%) of businesses report they have seen an improvement in the UK's digital networks in the past five years
- More than three quarters of firms (77%) believe that the UK's digital infrastructure either matches or exceeds that on offer in other countries, with half of professional service firms (51%) viewing the UK as above average
- More than four-fifths of companies view faster and more reliable fixed-line and mobile broadband (85% and 84% respectively) as critical to their future success
- While 85% of businesses view fixed-line broadband in the UK as matching or exceeding the quality found abroad, this drops to 65% for super-fast and 63% for mobile broadband
- Close to three quarters of firms (71%) feel well-informed about the benefits that greater digital connectivity could offer them, but nearly half (46%) believe their business could be making better use of the UK's digital network in practice.

Government can take practical steps to boost the pace of delivery

- Awareness of government initiatives remains relatively low, even among infrastructure providers and construction firms. Nearly half of infrastructure providers (45%) have not considered the National Infrastructure Plan when making investment decisions
- Businesses value some government initiatives but think there is room for improvement: just 8% view the UK Guarantee Scheme as fully effective at the moment but 73% see it as partially effective, underlining its potential
- Businesses view action to tackle costs and delays in planning, steps to raise levels of commercial expertise in government, a clearer pipeline of projects and further improvements to the investment environment as key focal points to boost infrastructure provision
- Despite welcome reforms, planning is still considered a barrier to development by 96% of businesses, with 71% considering it a significant barrier.

The infrastructure landscape

With growth set to remain fragile in the coming years, it is critical that investment in infrastructure sits shoulder to shoulder with fiscal consolidation in the UK's economic strategy, not only for the short-term benefits it can bring, but also for the transformative impact it can have on our economy.

The UK is currently playing catch-up however, after years of under-investment and while government now recognise the challenges that lay ahead, action on the ground has been slower to emerge. If confidence is to be secured, it is essential now that we use the next 18 months to demonstrate what can be achieved, while also addressing the big issues that lie ahead.

Infrastructure investment is central to overcoming many of our current economic challenges

Business confidence is picking up, but now is no time to take our foot off the pedal. We need to remain focused on getting Britain building, not only for construction benefits, but more importantly, to set the UK on the right course for longer-term economic prosperity.

In the short term, we know that regenerating our transport networks, rolling-out the next generation of digital infrastructure, and renewing our energy supply creates jobs and boosts activity in supply chains across the UK.

Even more importantly, however, infrastructure sits right at the heart of many of the long-term challenges faced by our economy. Renewing the UK's trading ambition to boost exports will require the right connections with the rest of the world, so it is critical our air links and digital networks are up to scratch. Unlocking the latent potential in all regions of the UK by making them an attractive investment proposition also requires excellent transport connections. In addition, an effective industrial strategy that ensures the UK is able to play to its sector strengths requires high quality and affordable infrastructure to make our industries competitive.

...but historic levels of underinvestment have placed UK businesses at a disadvantage

There is now a recognition that this government cut capital spending too sharply upon coming into office in 2010, reducing construction activity at a time when the UK badly needed investment and setting back the construction pipeline for years to come.

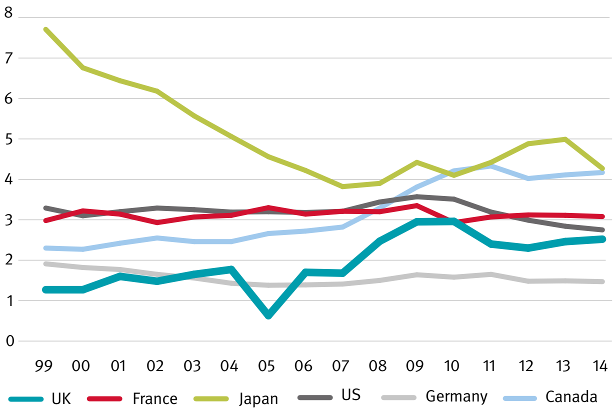
The trend of underinvestment in the UK's infrastructure goes much further back however. OECD figures (**Exhibit 1**) indicate that the UK's public investment since the turn of the millennium has been consistently well below that of the vast majority of OECD countries – a lag that continues to exist today.

The effects of this investment gap are now visible. The UK is ranked at 28th for quality of infrastructure in the 2013-14 World Economic Forum rankings, below our main international competitors such as Germany, France and the US, but also below countries such as Saudi Arabia and Barbados.[1] One study has suggested that if infrastructure in the UK had matched that of other leading economies, GDP could have been as much as 5% higher in each year between 2000 and 2010.[2]

28th

UK ranking for quality of infrastructure according to the World Economic Forum

Exhibit 1 **Public investment as a % of GDP, 1999-2014**



Source: OECD

The message from government has been increasingly encouraging...

After positive moves to boost capital spending in the 2012 autumn statement and 2013 budget, the government continued this trend in the 2015-16 Spending Round, which further enhanced infrastructure investment by £3bn a year from 2015, embedding the decision to shift resources from current spend to growth-stimulating capital spending for the long-term. This shift was complemented by a rush of badly-needed road and rail projects capable of delivering a significant boost to our networks, even if the UK's total public investment in infrastructure still falls short of our competitors.

Government spending is only one part of the story however. With 85% of the projects in the National Infrastructure Plan earmarked to be delivered by the private sector, the business environment for infrastructure operators, investors and builders is just as critical. Here too, we have seen a number of positive steps. The significant reform of the planning system for both major infrastructure and local projects was a step in the right direction. The extension of the UK Guarantee Scheme also gives us the best shot at making the most of the existing scheme. Furthermore, the long-term funding cycle for the Highways Agency and progress towards passing the Energy Bill are moving UK infrastructure slowly towards a longer-term investment outlook.

Government has also taken positive steps to understand the capacity requirements to maintain the UK's position as an important aviation hub. The findings of the Independent Airports Commission, led by Sir Howard Davies, are eagerly awaited, although to push the debate forward it is essential all parties get behind them.

...but this message is undermined by a lack of delivery on the ground

The sense from businesses however is that despite months of encouraging sound-bites, the promised flow of projects still remains little more than a trickle. There are few projects from the National Infrastructure Plan that government can point to in order to highlight successful delivery and plans for the next Spending Round are heavily back-loaded, with many projects not earmarked to begin until later this decade.

Even where private-sector capital is providing funding, businesses are still looking for government to take decisive action. For example, since its introduction in 2011, only three UK Guarantees have been confirmed. No agreement has been found yet on a strike price for Hinkley Point and long-term road reform and aviation have been parked until after the next election. Capital investment in economic infrastructure is still disincentivised by a tax system that is out of line with those in other countries. This lack of practical action jars with political assertions from all sides of the House about the need for urgency and for getting Britain building.

The job in hand is still to nail down the detail: ministers have to follow through on the promises they have made. The review by Lord Deighton into the capacity of Whitehall departments to deliver major infrastructure was welcome, injecting a more commercial approach, but it is critical now that the focus is on outcomes. Demonstrable progress on a few key projects is essential to let firms know that behind the announcements, government actually means business.

There is still action that can be taken in this parliament

With over 18 months of this parliament remaining, we need to be pragmatic about what can be achieved before 2015. This means doing everything we can to get a small number of projects off the ground to prove to investors that the UK can deliver, while taking every possible opportunity to boost private sector investment.

Looking further ahead however, we cannot ignore the big debates because they are too politically sensitive. The results of this survey demonstrate the need for action and consensus. Having these upfront and frank conversations now should allow us to lay the foundations for the difficult decisions we face ahead if we are to create world-class UK infrastructure.

We need to lay the groundwork that will allow us to get off to the best start after 2015. That is why the CBI is calling for the government and opposition to commit to five actions in the next 18 months that will bring about meaningful change.

Five actions for the next 18 months

1) Boost investment by introducing capital allowances for the construction of infrastructure projects at the autumn statement
2) Complete all feasibility studies for road and rail projects outlined in the Spending Round and commit to detailed plans for delivery, while starting the debate on longer-term road reform by conducting an audit of the state of the road network and its costs to operate
3) Enshrine the Energy Bill into legislation and bring forward secondary legislation to provide businesses with the certainty they need to invest in our future energy supply
4) Commit to implement the findings of the Airports Commission in party manifestos
5) Collaborate with industry on a long-term plan for digital infrastructure, enabling businesses to make use of a wide range of technologies.

The third CBI-KPMG infrastructure survey

The third CBI infrastructure survey, run in partnership with KPMG, provides an authoritative snapshot of the state of the UK's infrastructure networks as viewed by the businesses that rely on them to succeed. Since the inaugural survey in 2011, infrastructure has come to play an increasingly central role in the government's attempts to lay the right foundations for future economic growth.

This year's survey gives an opportunity to monitor progress three years into the current government's term of office. It provides a barometer of the quality, affordability and competitiveness of the UK's infrastructure networks, highlighting the strengths and weaknesses in our essential economic infrastructure and where the UK urgently needs to prioritise investment. With private sector investment in infrastructure critical to future prosperity, the survey also reviews the current infrastructure landscape from an investor perspective, highlighting the barriers still to be addressed.

Conducting the survey

The survey was conducted over a seven-week period from May to July 2013, with responses received from 526 participants. The respondents were senior executives from companies of all sizes, spanning all major sectors of the economy and all regions of the UK. Infrastructure investors, providers and users all took part in the survey, so the responses give a rich picture of the UK's infrastructure from a number of different angles.

The survey questions focused on the quality, reliability and affordability of the five main classes of economic infrastructure: energy, transport, water, waste and digital, and on the impact of infrastructure on the UK's competitiveness as an investment location. They also assessed the attractiveness of the UK's business environment for building infrastructure and the effectiveness of government policies in improving the UK's networks.

Responses were received from all sectors of the economy…

Companies across all sectors of the economy responded to the survey (**Exhibit 2**). Manufacturing made up the largest group by sector, representing almost one in four of all respondents (23%), with construction (17%) and professional and support services (13%) also well represented.

Exhibit 2 **Respondents by sector (%)**

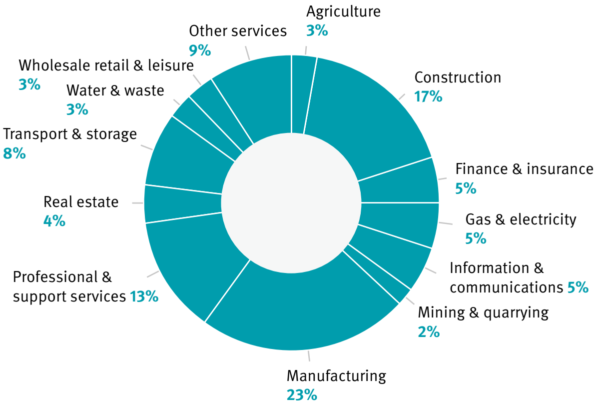
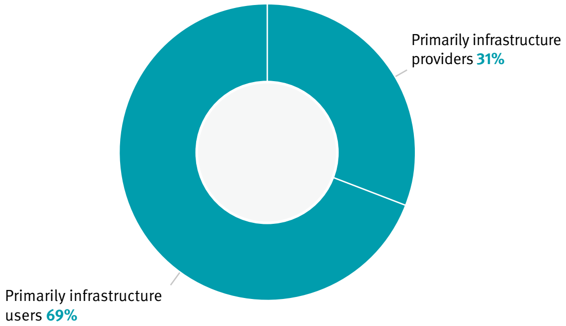


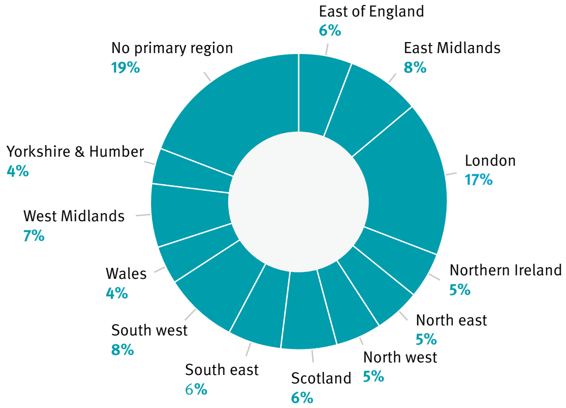
Exhibit 3 Infrastructure providers (%)



Grouped by broader sector type, the largest category of respondents came from service sectors (48%), followed by production sectors (32%). In the analysis of the results, responses were weighted according to the sectoral contribution to GVA based on the latest available ONS estimates.[3]

Responses were also analysed on the basis of firms that classed themselves as infrastructure providers and those that were solely users. Almost a third (31%) of those taking part in the survey said their company was primarily a provider of infrastructure (**Exhibit 3**).

Exhibit 4 Primary location of respondents by region (%)



...and from all regions of the UK

Most respondents were companies with operations in more than one region of the UK, with nearly half (46%) reporting that they operated in all regions. In order to establish a clearer picture of regional representation, the survey asked respondents to pinpoint where the company was primarily based (**Exhibit 4**). Nearly a fifth (19%) reported they had no primary region because they operated nationwide, but among those citing a primary region the most common was London, representing 17% of the sample. All other regions were more evenly spread, ranging from 4% in Wales to 8% each in the East Midlands and south west.

There was a good response from companies of all sizes...

Companies of all sizes, measured by number of employees, participated in the survey (**Exhibit 5**). Larger firms employing 500-4,999 employees constituted the biggest group, making up a third (33%) of all respondents. However, small companies with under 50 staff represented the second largest group, accounting for a fifth of the sample (20%).

Exhibit 5 Respondents by UK workforce size (%)

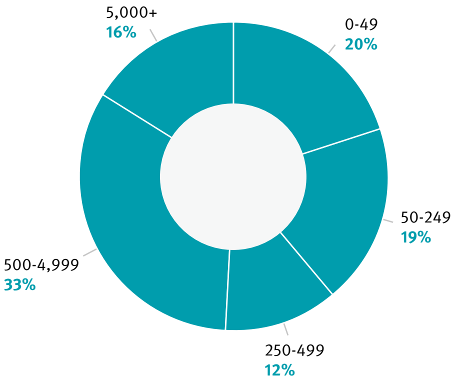
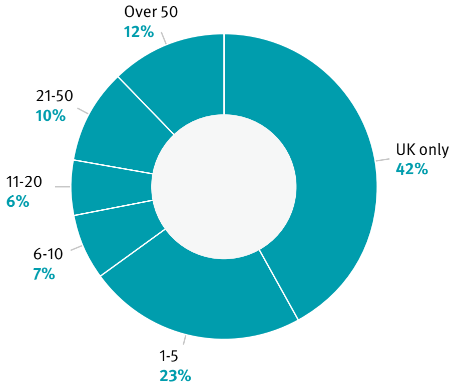


Exhibit 6 International presence of companies (%)



In all, 39% of the total sample were SMEs according to the official definition (employing under 250 people), while 31% were medium-sized businesses, with some overlap between these categories (SMEs are defined as those from 0-249 employees, while medium-sized businesses constitute those from 50-499, making some companies both SMEs and medium-sized businesses). Almost half (49%) were large companies.

...and with substantial degrees of international experience

The majority of participant companies operated internationally, with 58% operating in at least one country outside the UK (**Exhibit 6**). The largest group of those operating internationally were active in between one and five markets outside the UK (23% of participants), but almost the same proportion (22%) of companies in the sample operated in over 20 markets. Furthermore, among the infrastructure providers in the sample, almost 60% operated internationally.

This means that not only were respondents well-placed to assess how the UK's infrastructure compares with that of other economies, but they were also well-qualified to assess how the UK matches up as an attractive location to build infrastructure.

1 The UK's investment environment is improving, but confidence in government delivery remains flat

After two years of positive government statements and initiatives, the survey results show that the UK is increasingly seen as an attractive location for investment in infrastructure. This is encouraging progress. Businesses are concerned, however, that while the investment climate has improved, a tangible flow of projects has yet to materialise. This is leading to scepticism that government measures will have a major impact on the ground in the coming years.

As a result, on balance businesses expect to see few improvements in most of the UK's major infrastructure networks in the next five years, with only digital expected to get better. Confidence in energy infrastructure is particularly low, having fallen sharply since last year's survey – reflecting concerns about the pace of energy market reform, and cost and security of supply.

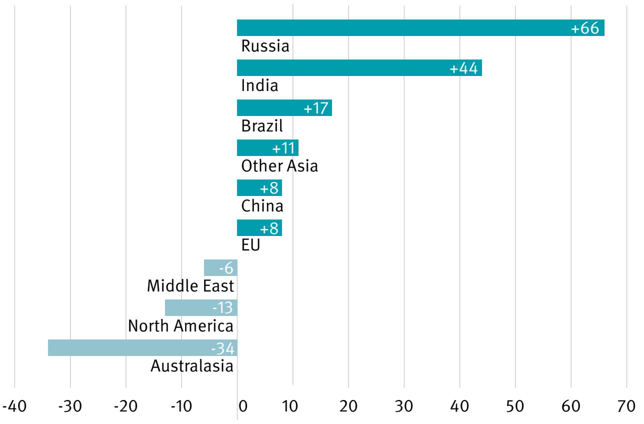
Key findings

- The UK has become a more attractive location to invest in infrastructure since 2011 by comparison with other EU states and much of Asia, but infrastructure companies still rate Australasia and North America as better destinations
- Despite this progress, businesses as a whole are increasingly doubtful that the improved policy climate will translate into tangible impact on infrastructure investment. Only a third of companies (35%) believe government policies will have a positive effect over the next five years – a lower proportion than in 2011
- Just 28% of businesses expect to see improvements to the UK's transport infrastructure over that period, an increase of only one percentage point on 2012
- Businesses have become much more sceptical about the prospects of improvement in energy infrastructure, with the balance between those with negative expectations relative to positive ones widening from -34% in 2012 to -54% in 2013.

Perceptions of the UK as a location for infrastructure investment are improving...

This year's survey results show the UK is increasingly perceived by those who operate or invest in infrastructure as an attractive place to invest. Asked whether the UK compares favourably or unfavourably with a range of potential investment locations, 37% of business leaders believe the UK now offers a more favourable environment than other EU member states, compared to 29% who think it is less favourable (producing a positive balance of +8%). Respondents also rank the UK as more attractive – measured on balances – than Russia (+66%), India (+44%), Brazil (+17%), China (+8%) and other economies in Asia (+11%) (**Exhibit 7**).

Exhibit 7 How the UK compares as a place to invest in infrastructure (% balance)



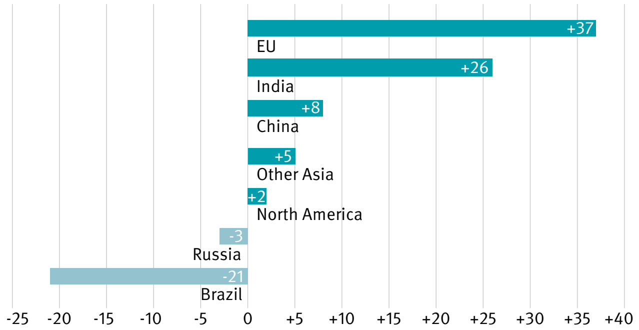
Note: Figures based on balance of 'more favourable' responses minus 'less favourable' responses.

Comparing these results with the same question in 2011 indicates that action taken by the government appears to have had a positive impact. Looking at how the balance between favourable/unfavourable assessments of the UK relative to each location has changed between 2011 and 2013 indicates significant improvement (**Exhibit 8**). Perceptions of the UK's competitiveness have drastically improved compared against other EU countries, increasing by 37 percentage points (from a balance of -29% to +8%). Improvements have also been seen relative to Asian economies – with respondents viewing the UK and China as equally attractive in 2011, but viewing the UK as more attractive in 2013.

+8%

Balance of respondents that believe the UK is a more favourably investment location than the EU

Exhibit 8 Change since 2011 in UK attractiveness as a place to invest against competitors (% balance)



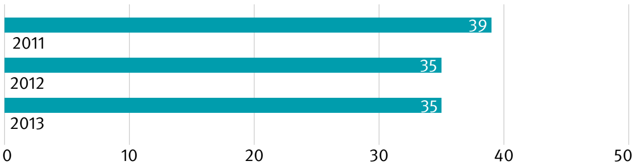
Note: Figures based on change from 2011 to 2013 of balance of 'favourable' ratings minus 'not favourable' ratings

UK infrastructure, however, faces tough competition for investors' capital. Large sovereign wealth funds have a wide range of possible locations for investment, so further action is still needed to make the UK stand out. The survey indicates the UK still lags behind key competitors in Australasia (-34%), North America (-13%) and the Middle East (-6%) as an attractive investment location. The Middle East in particular has gone from being rated as a less attractive location than the UK in 2012 (UK +17%) to a more attractive location in 2013 (UK -6%). This shift illustrates that in a competitive market, rival locations are continually upping their game to secure investment that could otherwise be UK-bound.

...but businesses and infrastructure providers remain sceptical that positive policies will translate into tangible investment

With a positive direction of travel for the UK's infrastructure investment environment, it is perhaps doubly concerning that businesses view the likelihood of improvements in the country's infrastructure with scepticism. The survey asked respondents to assess the impact they expect coalition policies on infrastructure investment to have over the next five years. While a third of companies (35%) think they will have a positive impact, the remaining two thirds believe they will have either

Exhibit 9 Companies expecting coalition policies to have a positive impact (%)

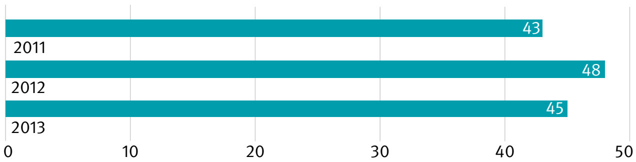


a negative (38%) or no impact (27%). The results indicate that over three years into the government's term, fewer businesses now believe its policies on infrastructure will achieve a positive impact in practice compared to 2011 (**Exhibit 9**).

Infrastructure providers take a similar view (**Exhibit 10**). While providers are generally more positive about prospects than other businesses, with 45% expecting a positive impact, recent measures have done little to improve this. After an increase of five percentage points in those who felt government policies would have a positive impact in 2012, in 2013 this has declined by three percentage points – almost back to 2011 levels.

Concerns about the ability of the government to deliver are even clearer in survey respondents' answers about how confident they are that the overall quality and affordability of the UK's major infrastructure assets will improve over the next five years. Across the five major economic infrastructure asset categories covered by the survey, only the UK's digital infrastructure is expected to improve in the coming five years

Exhibit 10 Infrastructure providers expecting coalition policies to have a positive impact (%)

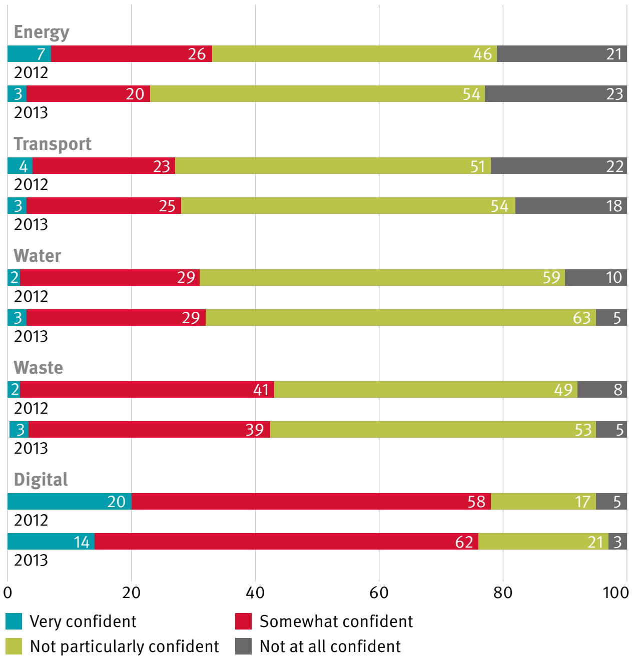


by the majority of respondents, with 76% expecting to see progress (**Exhibit 11**).

Respondents were least committal about the future of water and waste, with a larger proportion sitting in the somewhat confident or not particularly confident categories, potentially reflecting the lower profile these infrastructure classes enjoy in the media.

Positively, water observed a decrease of five percentage points in the number of businesses that are not at all confident that improvements will emerge. These slightly more promising results are driven by a significant increase in optimism of infrastructure providers, with 47% either somewhat confident or very confident that improvements would emerge, compared

Exhibit 11 Confidence UK infrastructure will improve in the next five years (%)



to 37% in 2012. This may reflect the fact that the Water Bill has finally been published, giving industry more clarity about future reform of the water market and plans to increase resilience.

Waste, on the other hand, has seen very little change, despite the uncertainty created through the withdrawal of PFI credits for three energy-from-waste schemes earlier this year. DEFRA's decision, driven by the need for departmental savings, has been met with frustration from the waste sector and underlines the need for a more joined-up approach from government towards encouraging investment.

The greatest concerns however are reserved for transport and energy, with businesses much more likely to respond that they are not at all confident that they will see improvements.

Major pinch-points in the UK's transport network are expected to persist...

In 2012, transport infrastructure was ranked as the biggest future concern for businesses, with a negative balance of -46% of respondents not confident of improvement in the next five years. The 2013 results show little advance. Last year, just 27% of all respondents thought that transport infrastructure would improve in the next five years, and 2013 sees only a marginal rise to 28%, producing a balance of -44% not confident of improvements (**Exhibit 12**).

Of all the major modes of transport infrastructure, businesses expect only tube and metro services (by a balance of +41%) and intercity rail (+26%) to improve over the course of the next five years. There is widespread expectation that local roads (-43%) and motorways (-26%) will deteriorate, both with increased negative scores compared with 2012 (local roads -42% and motorways -23%).

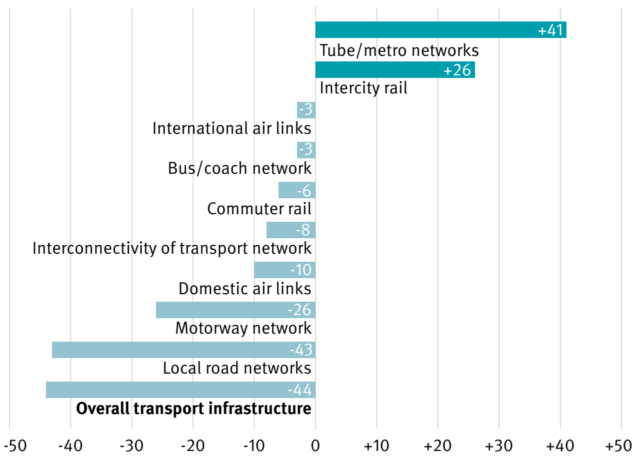
Results show significant variation between regions in businesses' expectations. With Crossrail under construction and HS2 progressing, London-based respondents are the most optimistic, with 37% expecting to see improvements in transport infrastructure – a figure that contrasts markedly with the respondents in the east of England and East Midlands, where just 8% and 9% respectively expect improvements.

This lack of confidence is perhaps unsurprising given the deferral of some key decisions until after the next election. The Airports Commission led by Sir Howard Davies is not set to report until summer 2015. Meanwhile the prospects of significant reform of the road network to fill the £8bn shortfall in funding for Highways Agency[4] projects appear to have stalled.

While businesses recognise that making important decisions on the future of the UK's transport cannot be rushed, it is important that politicians set the direction of travel in order to instil future confidence.

This means all parties signing up to the recommendations of the Airports Commission in their manifestos ahead of the next general election. It means prompting a serious debate about the role of private investment in the UK road network. It also means being clear about the case for building major infrastructure like HS2 to provide confidence in these projects as planning gets underway.

Exhibit 12 **Confidence UK transport will improve in the next five years (% balance)**



Note: Figures based on balance of 'confident' rating responses minus 'not confident'

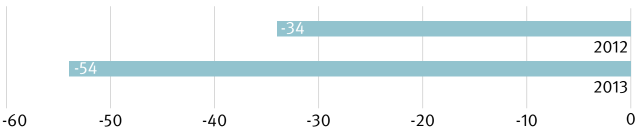
...while apprehension grows year-on-year for the future of the UK's energy supply

Overtaking transport as the biggest future concern in 2013 is energy. This has jumped significantly over the course of the year, with a negative balance score on expectations now at -54% (**Exhibit 13**). Just 23% of firms report that they are confident of improvements in energy infrastructure over the next five years, while 77% report that they are not confident, including 23% 'not confident at all'.

Particularly concerned are manufacturing firms, with just 14% now expecting an improvement in the coming five years – less than half of those who expected improvement in 2012 (29%). In contrast, 86% of manufacturing businesses are not confident of improvement, giving a negative balance on energy infrastructure expectations of -72%.

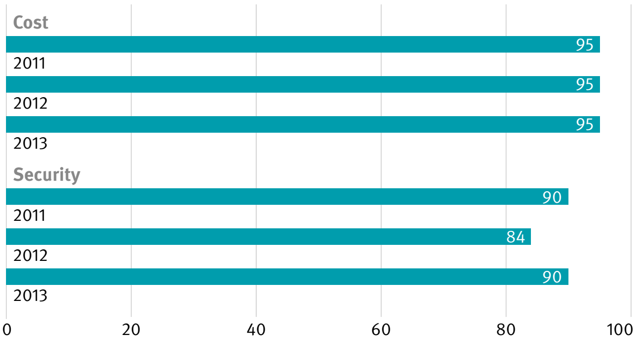
The UK needs huge amounts of private capital to flow into its energy infrastructure if we are to ensure we keep the lights on in an affordable and sustainable way. With much of this investment hanging on the passage of the Energy Bill, however, the UK remains in an investment hiatus, creating concerns among firms for which energy prices are critical to their future competitiveness. Against this backdrop, 95% of firms say they are now concerned about the costs of energy, while 90% report they are concerned about security of supply (**Exhibit 14**).

Exhibit 13 **Confidence energy will improve in the next five years (% balance)**



Note: Figures based on balance of 'confident' rating responses minus 'not confident'

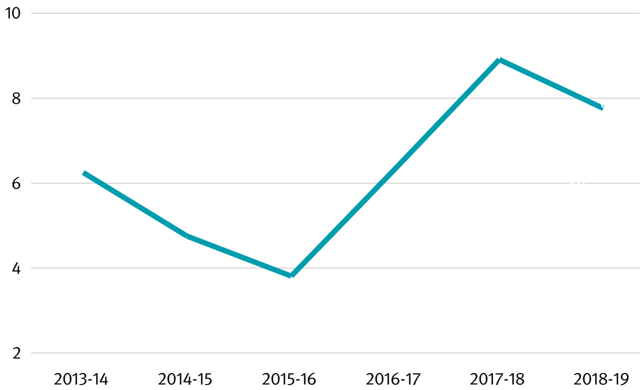
Exhibit 14 **Companies concerned with cost and security of energy (%)**



Data on the security of supply and cost of energy indicate that these concerns are well-founded. Ofgem data indicate that because of the hiatus in investment, the UK will come close to total capacity in the coming years until new energy sources can be brought online[5] (**Exhibit 15**). Furthermore the Department for Energy and Climate Change's own figures indicate costs are due to rise. While government has shown its commitment to diminishing the impacts of low-carbon policies on the competitiveness of energy intensive industries (EII) by providing a £250m compensation package and by exempting these businesses from some of the effects of electricity market reform policies, the impact of government policies on EIIs could still increase their bills by up to 65% by 2030.[6]

Encouragingly, gas and electricity firms are more positive about the outlook. Among these firms a majority (58%) are confident that energy infrastructure will improve in the coming five years. The 2013 survey shows an increase of eight percentage points on the figure last year, demonstrating growing confidence as details of the Energy Bill become clearer.

Exhibit 15 Projected excess available generation capacity (%)



Note: Excess capacity based on Ofgem de-rated capacity margin 2013 reference scenario – Ofgem Electricity Capacity Assessment Report 2013

-54%

Balance of respondents that believe UK energy infrastructure will improve in the next five years

With so much legislative and regulatory upheaval in the sector, however, it is perhaps unsurprising that this still leaves 42% of gas and electricity firms not confident about future improvement, especially those smaller and medium-sized companies in the energy supply chain. This finding also underlines the need to continue to work to nail down further detail as quickly as possible to boost confidence in the whole sector and facilitate much-needed investment.

2 Infrastructure weaknesses could put investment and growth prospects at risk

Considerations of quality, cost and reliability of infrastructure influence almost all businesses – whether a small home-grown company or a major multinational – when deciding where and when to invest. All infrastructure classes covered by this survey have a significant impact on these decisions, but transport, energy and digital networks are singled out by companies as particularly influential in their decision-making.

Given the emphasis businesses place on these networks, it is worrying that they also view the UK as below par on transport and energy when compared to other international destinations – especially our main competitors. This relative underperformance raises the spectre that shortcomings in UK infrastructure may be both holding back inward investment and impeding the growth prospects of those firms already operating here.

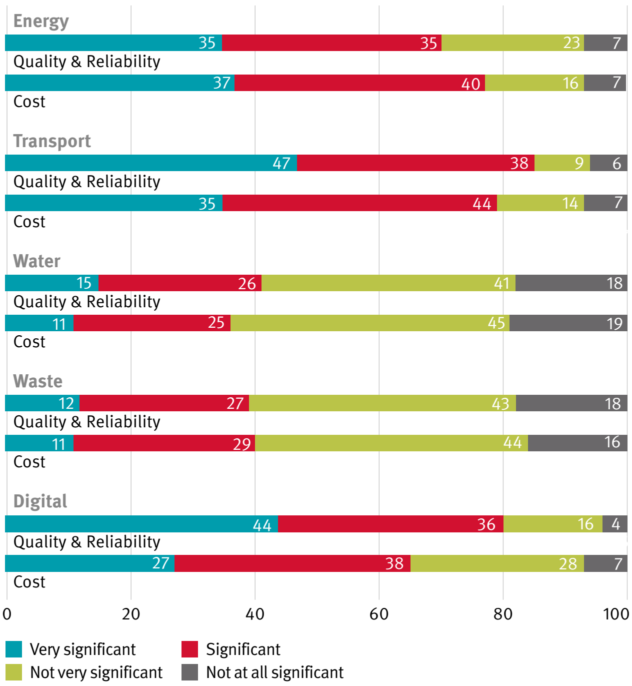
Key findings

- Quality or cost of infrastructure has a significant impact on 98% of companies when making investment decisions
- Businesses attached the greatest weight to the quality and reliability of transport (85%) and digital networks (80%) for their investment decisions
- Energy is another critical factor, but here cost is more important than reliability, with 77% of companies rating energy affordability as a significant factor in investment decisions
- The UK has a competitive lead in digital infrastructure (with a positive balance of +13%), but is ranked internationally below average by respondents for its transport (-37%) and energy infrastructure (-22%)
- Our closest competitors continue to outstrip us in terms of their infrastructure, with 57% of companies ranking the US as superior to the UK and 54% rating other EU members more highly, but the UK is increasing its lead over the infrastructure of emerging markets (with the UK rated as better by 76%).

Quality and cost of infrastructure drive the investment decisions of domestic and multinational companies alike

When it comes to making decisions about where to invest, the quality and cost of infrastructure are considerations for any business, affecting their bottom line. The survey asked businesses how significant a bearing the quality and reliability of the five major classes of economic infrastructure have on their investment decisions. It also asked about the importance of cost (**Exhibit 16**). The results show that only a tiny proportion of companies view infrastructure considerations as an insignificant factor in their investment decisions. Of respondents to the survey, 98% view the quality and/or cost of at least one type of infrastructure as a significant factor in their investment decisions, with just 2% answering that quality or cost of infrastructure has no significant impact.

Exhibit 16 **Significance of quality, reliability and cost for investment (%)**



Furthermore, quality and/or cost of infrastructure impact not only the investment decisions of multinationals, free to shop around between different locations, but also on the decisions of businesses based only in the UK. Among these firms just 3% indicate that the quality or cost of infrastructure has no significant impact at all on their investment decisions, indicating just one percentage point difference between international and domestic businesses.

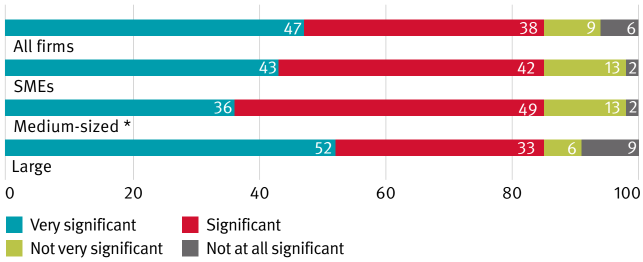
Therefore, it is clear that infrastructure plays a major role not only in attracting mobile investment, but also as a facilitator or constraint on the expansion plans of businesses operating wholly in the UK. Where infrastructure networks are sufficient, new possibilities are opened up, but where they are limited businesses – and the economy as a whole – may be missing out on new growth opportunities.

Reliable transport and good digital connections are top priorities when choosing investment locations...

Among respondents, the quality and reliability of infrastructure tend to rank as more important than cost, although both factors are often highly important. In terms of quality, transport and digital networks are the top areas of concern.

In all, 85% of firms say that quality and reliability of transport are significant factors in investment decisions against just 15% who report they are not, producing a balance of +70%. Transport of course plays a central part in the operations of most businesses, with almost half of all respondents rating the quality and reliability of transport networks as 'very significant' in their investment location choice. Sectors for which transport quality is considered most important are perhaps unsurprisingly led by transportation and storage (98%), followed by real estate (96%), construction (95%) and manufacturing (94%).

Exhibit 17 **Significance of quality and reliability of transport infrastructure for investment (%)**



* This category covers businesses with 50 to 499 employees so there is some overlap with SME figures

By size of firm, the results indicate remarkable consistency, with 85% of SMEs, medium-sized and large businesses considering transport connections a significant factor in their decisions (**Exhibit 17**). Among larger firms, however, a bigger proportion state that transport is a 'very significant' factor, reflecting its importance in connecting geographically dispersed operations. Multinationals are also more likely to attribute importance to quality of transport connections, with nearly three quarters (73%) of companies operating in over 50 countries considering transport connections as a 'very significant' factor in investment decisions.

High-quality digital networks have grown in importance in recent years, with 80% of respondents rating their quality and reliability as a significant factor in investment decisions (+60% balance). In 2011, just over a quarter (27%) of respondents viewed digital networks as 'very significant' to their investment decisions. In this year's survey, however, this has risen to 44% of all responses, an increase of 17 percentage points over just two years.

98%

Firms for whom infrastructure constitutes a significant consideration when making investment decisions

Exhibit 18 Significance of quality and reliability of digital infrastructure for investment (%)

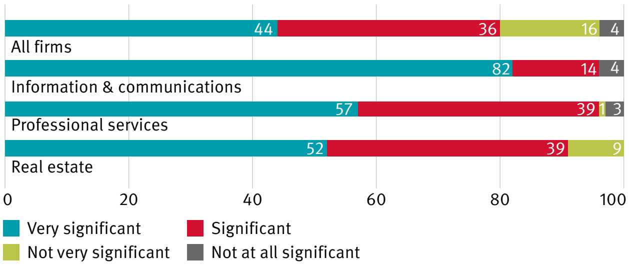
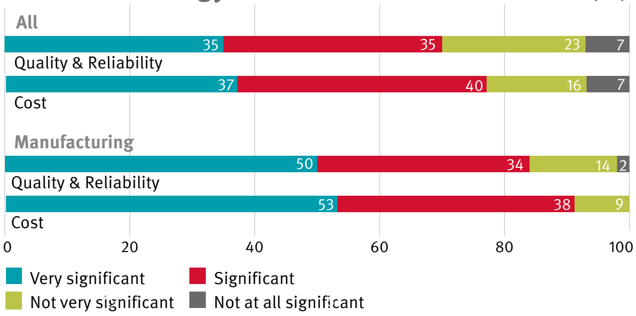


Exhibit 19 Significance of quality and reliability and cost of energy infrastructure for investment (%)



Furthermore, digital network quality has a major impact on the investment decisions of companies working in many of the sectors in which the UK is particularly strong (**Exhibit 18**). Among information and communications businesses and professional services firms, 96% consider digital network quality as significant to their investment decisions, with 82% and 57% of firms respectively considering it 'very significant'. SMEs also attached particular significance to digital, with 88% considering the quality of networks significant, reflecting the importance of the online marketplace for reaching new customers.

...together with affordable transport and energy costs

Cost is ranked as an especially critical factor in two areas of infrastructure provision: transport and energy networks.

Transport costs are ranked of similar importance to firms as quality, with four out of five (79%) of firms rating it as a significant consideration. Energy on the other hand is the one area where concerns over cost significantly outstrip concerns over quality and reliability. In all, more than three quarters (77%) of respondents rate energy costs as a significant factor in their investment choices.

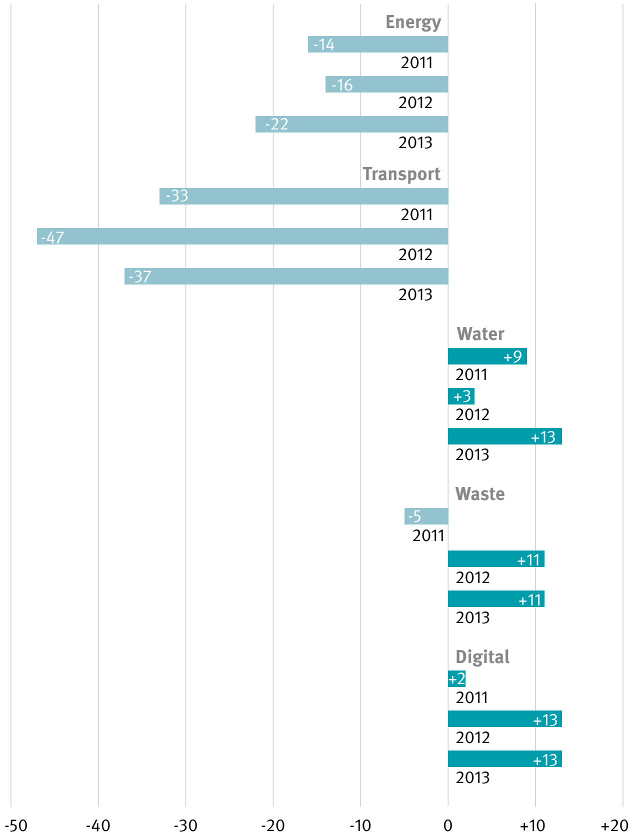
The costs of energy infrastructure clearly take on additional significance for those in the manufacturing sector (**Exhibit 19**), with many firms heavily dependent on energy prices for their international competitiveness. Nine out of ten manufacturing firms (90%) say energy costs have an impact on their investment decisions, with over half (53%) reporting that energy costs have a 'very significant' impact.

As shown in **Exhibit 16, page 20**, the quality and cost of waste and water infrastructure are highlighted as considerations for a substantial proportion of firms. Just over half regard the quality and reliability of these infrastructures as a significant factor in investment decisions (56% for waste, 55% for water) and nearly two in five see their cost as having a significant bearing (38% for waste, 35% for water). For manufacturing and construction firms however, the quality and reliability of water supply and the cost of both water and waste take on additional significance, with over 50% of firms viewing these factors as significant in investment decisions.

The UK needs to catch up with its competitors...

With energy, transport and digital infrastructures featuring as major considerations for firms when they choose where to invest, it is of particular concern that businesses view the UK as lagging behind in two out of three. When asked how the UK compares internationally, a larger proportion of respondents view the UK as below average for both transport and energy than above average relative to other international business destinations.

Exhibit 20 UK infrastructure compared internationally (% balance)



Note: Figures based on balance of 'above average' ratings minus 'below average'

Perhaps even more worrying is that relative to 2011, respondents in 2013 view UK competitiveness in both classes as having decreased, rather than increased (**Exhibit 20**).

Perhaps most critically, just over half (51%) of all respondents view the UK's transport infrastructure as below average in an international context, with only 14% responding that it is above average (giving a negative balance of -37%).

Exhibit 21 **Dithering over delivery – the A14**

The much-needed upgrade to the A14 has faced continual uncertainty. After the decision in 2010 to scrap the scheme, 2011 saw the government's commitment reignited, together with an intention to fund the upgrade through private investment. In 2012 however came the news that construction would not begin until 2018 at the earliest due to planning issues and potential legislation needed for a road toll. This timeline was then brought forward suddenly earlier this year, with government announcing construction could now begin as early as 2016. Without a national policy statement for roads however, it is difficult to see how government will get this project through so quickly.

Communication has been poor and businesses have been left wondering when the project will begin and how precisely it will be funded, as the 2013 spending round announcement failed to provide any further clarity. With the media now reporting that local councils are refusing to part fund the project, businesses are worried that the A14 will again stall.

International companies tend to be less negative about the UK's transport connections, with 49% of those firms operating in over 50 markets responding that UK links are below average and 32% above (a balance of -17%). Nonetheless, the figures indicate that a majority of those with the greatest international experience also see the UK's infrastructure as below average.

The results show no improvement in assessments of UK transport networks since last year, despite a number of high-profile announcements on increased funding for local roads and improvements to the strategic road network. These projects have been welcomed by business, but until they produce tangible results, the UK's international standing is unlikely to shift. The onus now is on government to deliver some big-ticket projects to demonstrate real progress on the ground. Projects such as the A14 have long been promised, but dithering over delivery has knocked confidence (**Exhibit 21**).

The international comparative results for energy infrastructure are less extreme, but underlying them is a worrying year-on-year trend. In 2011, the UK was already rated as below average international standards with a balance of -14%, worsening to -16% in 2012. In 2013, this negative balance has increased further to -22%. In all, nearly two in five (38%) of all respondents now view the UK energy infrastructure as below average and only 16% as above average by international standards. For manufacturers, the group most mindful of energy costs, the balance score rises to -37%, with 50% of companies viewing the UK as below average and only 13% as above average.

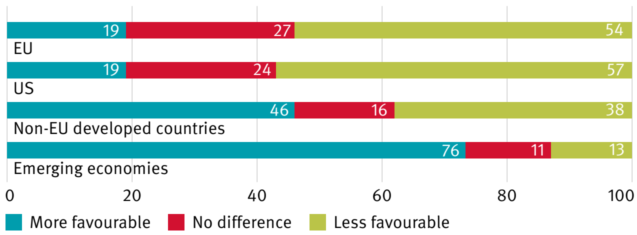
But perhaps most worrying is the assessment of companies operating in over 50 markets. Contrary to transport, where these companies tended to be less critical of the UK's system than the average, energy firms tended to believe the opposite, giving the UK an even lower rating of -32% and suggesting that internationally the picture may be even worse.

...while building on our lead in digital

The survey's results on digital international comparisons, however, provide a positive story, illustrating that digital networks are a strength on which the UK can build (as shown previously in **Exhibit 20, page 23**). Some 36% of respondents view our digital infrastructure as above average, with only 23% viewing them as below average, producing a positive balance of +13%. Moreover, firms operating in industries reliant on digital networks tend to be even more favourable, with 42% of information and communication businesses and 52% of professional services firms viewing the UK's digital network as above the international average.

Clearly there is no room for complacency. As outlined in the recent CBI report *Let's get digital*, the quality and connectivity of our digital infrastructure is of national importance and we need to treat it as such in our policymaking if we are to maintain and increase our leading edge.[7]

Exhibit 22 UK infrastructure compared with international destinations (%)



This means government articulating a vision and ambition for UK digital infrastructure and working with industry to develop a strategy that provides investment certainty beyond this parliament. It also means greater collaboration between government and industry to boost uptake of digital services, so that we not only have a world-beating network, but we maximise usage.

54%

Companies that view UK infrastructure as less favourable than EU infrastructure

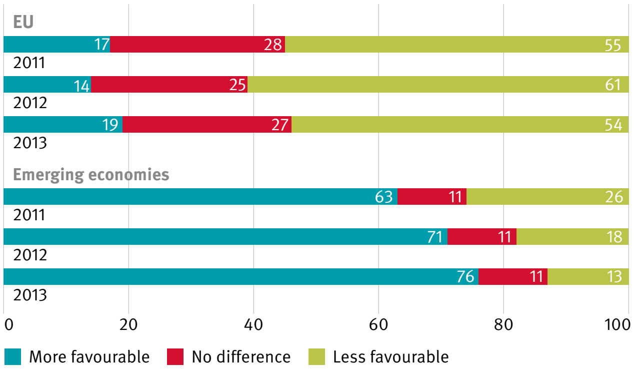
Businesses perceive UK infrastructure to be below the standard of key competitors

We asked companies to assess how the overall quality, reliability and value for money of the UK's economic infrastructure compares with other specific locations. The results indicate that UK infrastructure is viewed highly favourably when compared with both emerging markets and many other developed countries (**Exhibit 22**). More problematic, however, is the finding that firms view our infrastructure as lagging behind those countries most directly in competition with the UK for the same export and growth opportunities – namely the US and other EU countries.

Over half (54%) of companies feel the UK's infrastructure compares unfavourably with other EU markets, while just one in five (19%) believe it compares favourably (a balance of -35%). Against the US, the gap is even wider, with 57% viewing UK infrastructure unfavourably compared to 19% favourably (-38%). More positively, UK infrastructure was rated broadly favourably when compared to other non-EU advanced countries (+8%) and much more favourably when compared to emerging markets, with some 76% of respondents viewing UK infrastructure positively in comparison (+63% balance).

While the UK still clearly has some way to go in matching the EU and US for quality and affordability of infrastructure, year-on-year trends indicate that the UK is at least keeping pace – while at the same time moving further ahead of emerging markets. A three-year comparison with other EU states indicates that in 2011 a balance of -38% of respondents then saw UK infrastructure as lagging behind (**Exhibit 23**), with marginal improvement to -35% in 2013. More notable, however, has been the rapid increase in those rating UK infrastructure above that in emerging markets, despite these economies' efforts to bring their networks up to the standards of developed nations. In 2011 63% of companies viewed UK infrastructure more favourably than these destinations (with a balance of +37%), but in 2013 this has risen to 76% (+63%).

Exhibit 23 UK infrastructure compared with EU and emerging markets, 2011-2013 (%)



3 UK infrastructure needs to keep pace with our global trading ambitions

As businesses turn towards new emerging markets with high-growth opportunities, ease of access is an increasingly important consideration when choosing where to invest. While the UK's travel connections to established trading partners are strong, businesses are discovering that all too often the links they need to new markets are inadequate. With airport capacity increasingly constrained in the south east and the UK's hub at Heathrow full, most businesses are doubtful that these connections will improve in the next few years.

Key findings

- International transport connections to emerging markets are either crucial or very important for almost half (49%) of all companies in making their investment decisions, rising to 85% for the biggest multinational firms
- Of firms requiring connections to emerging markets, less than half (47%) are satisfied with their availability – down from 60% in 2011
- Respondents increasingly view direct flights to all locations as important to their businesses, with 57% of firms viewing direct flights to China as either crucial or important
- While satisfaction with direct flights to the EU and US remains high, just 37% of companies viewing direct flights to China as crucial or important are satisfied with their availability
- Only 28% of respondents expect improvement in the UK's international air links in the next five years, while 31% expect them to deteriorate.

Successful international trading depends on the right connections...

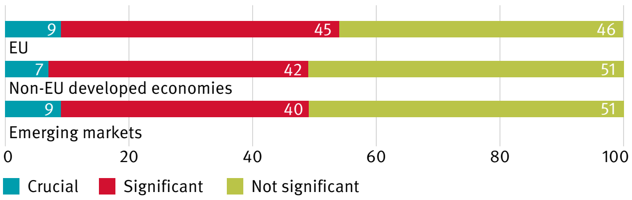
Improving the UK's export performance is central to future prosperity. With public finances constrained and domestic consumers still burdened by debt, increasing exports is a critical part of boosting sustainable growth. In a world where the balance of economic power is increasingly shifting from developed, mature economies towards emerging markets with high-growth potential, having the right connections has never been more important. Over the next five years, economic growth in emerging markets is forecast to average 7.7% a year against 4.4% for advanced economies,[8] so links to these markets will become increasingly critical if UK businesses are to seize the opportunities available.

Business leaders fully recognise the importance of good infrastructure links with these new markets. At the same time, strong connections must be maintained with the established markets that form the traditional backbone of the UK's trade, meaning it is not a question of replacing existing connections with new ones.

Asked how significant the UK's international transport connections are to future investment decisions, respondents see connections with emerging markets almost as important as with those to other EU states – where currently almost half of all UK trade is directed. Just under half of businesses (49%) rate connections to emerging markets as significant in their investment decisions while just over half (54%) view connections to the EU as an important factor (**Exhibit 24**).

For multinational companies, good transport connections from the UK to established and emerging markets alike take on additional significance when making decisions about future investment. For companies operating in over 50 countries, 85% report that connections with both the EU and emerging markets are an important factor in their decision-making, with 37% ranking UK transport connections with emerging markets as 'crucial'.

Exhibit 24 **Significance of transport connections to future investments (%)**



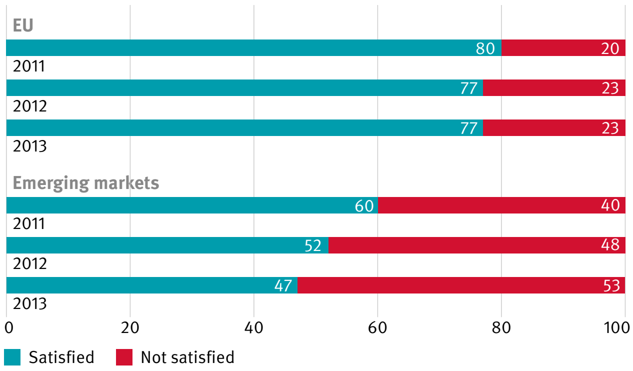
The figures indicate not only the increasing importance that UK businesses attribute to connections with emerging markets, but also just how essential these links are in making the UK an attractive location for inward investment. Multinational businesses rely on efficient global transport to link their international operations and reach a customer and supplier base in increasingly diverse locations, so it is crucial that the UK's networks meet these needs.

With BRIC countries' current demand for imports of machinery and transport equipment, manufacturing firms tend to rate connections to these markets as especially significant for their investment plans.[9] UK strengths in the aerospace, automotive and chemical industries have led the way in growing exports to these markets.[10] Reflecting this, 61% of manufacturing firms rate good links as important to their investment decisions, the highest of any sector except transportation. As these markets reach more mature stages of economic development, however, their demands will increasingly align with the UK's other comparative advantages in services. This will add to the importance of good transport links in the future.

...but satisfaction with connections to new markets is deteriorating

Asked about their satisfaction with links to different markets, businesses paint a variable picture. The vast majority of respondents report they are satisfied with international transport links with established markets: some 77% of respondents report satisfaction with connections to

Exhibit 25 **Satisfaction with links to markets (%)**



both the EU and the US. Given that together these markets account for around two thirds of the UK's global exports, it is encouraging that the UK is well-linked to established trading partners.

More worryingly, however, business assessments of linkages to other markets are considerably less positive. While 60% of firms are satisfied with their transport links with non-EU established markets, under half (47%) are satisfied with links to emerging markets, with only 8% reporting they are 'very satisfied'.

Results from the previous two years indicate a diverging trend in business assessments of transport links (**Exhibit 25**). While connections to the EU have remained broadly strong, satisfaction with links to emerging markets has declined year-on-year, just as their importance is increasing. In 2011, 60% of businesses were satisfied with their transport links with emerging markets. By 2013, the proportion satisfied has declined by 13 percentage points to 47% – a marked decline in just two years.

Businesses are discovering the direct flights they require to break into emerging markets are not there...

One possible explanation for declining satisfaction with links to emerging markets is that businesses become more aware of the UK's shortcomings as they place greater emphasis on exploring new export opportunities. Backing for this view is provided by the finding that businesses are attaching increasing importance to direct flights to all major markets as they look to increase exports (**Exhibit 26**).

Asked how important it is to their business to have direct flights to a range of locations, the results indicate a year-on-year rise in the number of firms reporting that these are either crucial or important to all locations. The changes range from a 3% increase in the case of India and the Middle East through to a rise of 6% for China and 8% for Brazil. The EU and North America are both still ranked as the most important locations and in both cases businesses see direct flights as increasingly significant.

Exhibit 26 Significance of direct flights to markets (% crucial or important)

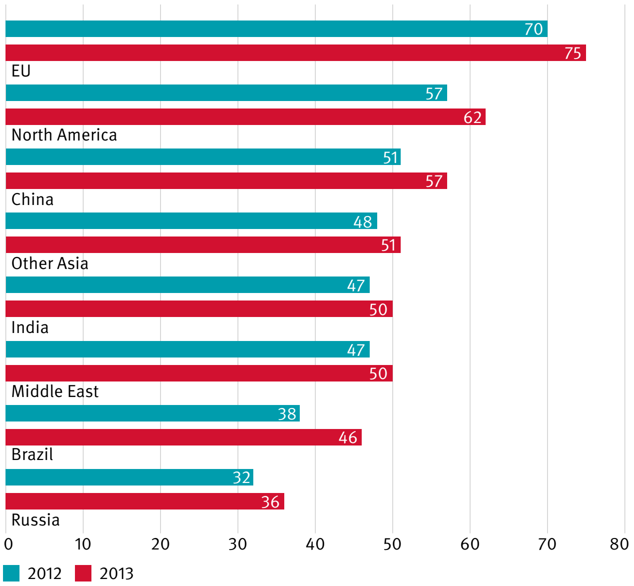
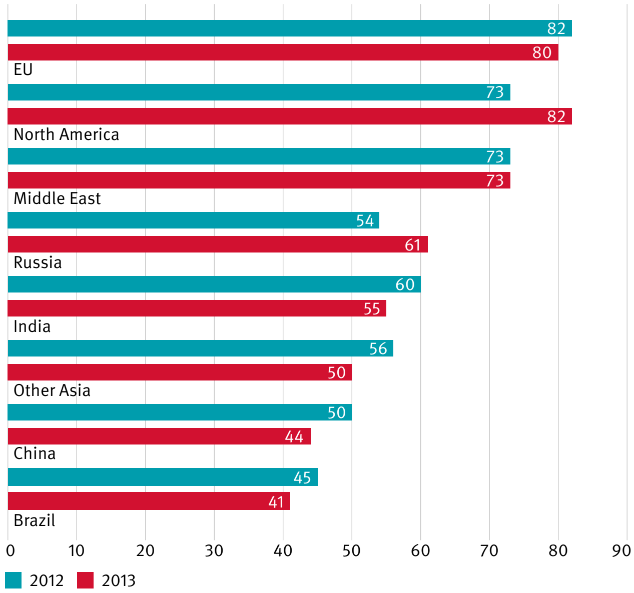


Exhibit 27 Satisfaction with availability of direct flight connections (% satisfied)



The rising importance of direct flights has gone hand-in-hand with a decline in satisfaction with their availability to many of these markets since the 2012 survey (**Exhibit 27**). While contentment with direct flights to the EU remains broadly strong and satisfaction with links to the US and Russia grew, satisfaction with links to India, China, Brazil and other Asian markets all decreased, mirroring the declining satisfaction felt about the UK's broader transport connections to these markets. In 2013, only 55% of companies are satisfied with the availability of direct flights to India, 44% with flights to China, and just 41% with flights to Brazil.

Focusing only on those companies that view links to these markets as either crucial or very important, approval ratings drop even further. Among those firms that consider direct flights critical to their business, under half are happy with their availability to India (47%), China (37%) and Brazil (39%).

53%

Firms not satisfied with the UK's connections to emerging markets

This reflects the reality that the UK is falling behind in the race for global connectivity. Analysis published in the CBI's report *Trading places* indicates that as a proportion of new EU flights to the BRIC economies in the last 20 years, the UK ranks only fourth or fifth for connections to China, Russia and Brazil.[11]

Direct flight connections are an essential asset when businesses are looking to forge links in new markets. As highlighted by the CBI report, with a growth in direct connections comes an increase in bilateral trade. Without these direct travel links, however, it becomes much more difficult for businesses to develop the relationships they need. The weaknesses in direct connections to these markets experienced by a growing proportion of businesses therefore highlight a barrier to the UK's drive to boost its stance as an exporting nation.

...and most do not expect air connectivity to improve in the near future

The survey results show widespread concern among businesses that there is little prospect of the UK's aviation links improving in the next few years. With the UK's only hub airport at Heathrow operating at 99% of its full and capacity and decisions about airport upgrades postponed until after the next election, this is perhaps unsurprising. Nearly three quarters of companies (72%) expect the UK's international air connectivity to either stay the same or worsen in the next five years, compared with just 28% expecting any improvement – and only 5% a significant improvement.

Across all regions of the UK, only in the north east do a majority of respondents expect international air connectivity to improve, perhaps reflecting the success of new connections between Newcastle International Airport and Dubai in recent years. Since Emirates Airline started the route in 2007, demand has been such that it has increased seating capacity by 54%, while UKTI has noted an 83% increase in trade between the north east and Australasia in the last five years as a result of more direct routes to the region.[12]

The success of such routes illustrates the latent potential many of the UK's international airports possess for increasing connectivity. Improved ground connections to the airport network can boost demand for flights to new markets even further, making the development of new routes more viable from both the UK's hub as well as its range of point-to-point airports.

With 60 years having passed since the last major runway was built in the south of England and predictions that all the south east's airports could be full as early as 2025,[13] it is businesses based in London and the south east that expect international links to deteriorate the most (**Exhibit 28**). While a third of businesses (31%) nationwide expect international air links to deteriorate, the figure increases to 39% for businesses based in London and 41% for those in the south east.

Exhibit 28 **Respondents expecting international flight connections to worsen (%)**

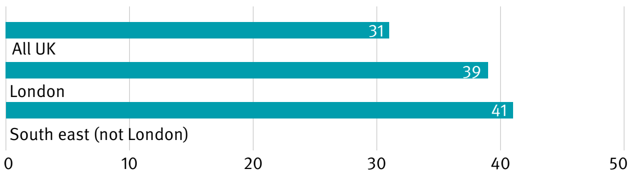
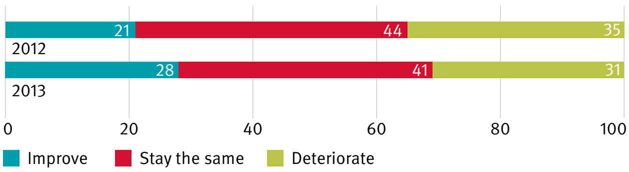


Exhibit 29 Expected change in international air links (%)



Perhaps surprisingly and more positively, however, businesses' pessimism about future air transport prospects has decreased compared to responses to the same question in 2012 (**Exhibit 29**). In 2012 the balance between those businesses that expected improvement and those that expected no improvement or worsening was -58%. In 2013, the negative balance, although extremely high, has reduced to -44%.

28%

Businesses expecting international air links to improve in the next five years

Politicians of all colours must commit to a new solution

Underlying this trend may be a growing confidence that the Airports Commission, led by Sir Howard Davies, can finally break the aviation policy logjam as it approaches the interim publication of its findings. The CBI has called on the Commission to deliver bold recommendations that meet the demands of UK businesses in the short, medium and long term. In the short term, improved ground access to all airports across the country is essential, boosting demand for existing capacity and making new routes more viable. But in the medium to long term, additional runway capacity is critical if the UK is to foster links with new markets, including a hub with space to grow.

Given the advisory nature of the Commission however, confidence will only be significantly driven forward if businesses believe the recommendations are likely to be put into action. The Commission was created to find a solution to a problem that has become deeply political, meaning a lasting solution must achieve political consensus. This makes it important that the three main parties commit to accepting the findings ahead of the publication of the final report by embedding this in their election manifestos.

4 Major pinch-points in the UK's transport system remain problematic

The quality of domestic transport connections is a leading factor in determining whether and where in the UK businesses choose to invest. Good connections can create jobs, foster competition, boost productivity and incentivise inward investment. Poor connections, however, can hinder the UK from benefitting from the latent potential for growth that exists in all regions of the country.

Currently only half of all businesses are satisfied with the overall standard of domestic connectivity. While public transport has seen some considerable improvements over the last five years, the road network remains in dire need of reform to draw in new investment. With the quality of domestic transport varying considerably from region to region, it is clear that the projects prioritised will have a major impact on the UK's regional development.

Key findings

- The quality of domestic transport connections makes a real difference to businesses: nearly two thirds of firms (62%) say it has an impact on their investment decisions, rising to 82% for large multinationals
- Dissatisfaction with domestic transport links is on the rise, with the proportion of businesses voicing dissatisfaction jumping from 28% in 2011 to 49% in 2013
- Businesses' biggest concerns are roads, with almost three quarters (73%) of respondents seeing a deterioration in local roads in the last five years and almost half (46%) seeing deterioration in the motorway network
- The top priorities identified by businesses to improve the road network are maintenance work and tackling congestion
- The pace of improvements to most public transport has quickened, with almost two-thirds (62%) seeing improvements to tube and metro services, and 40% seeing improvements to intercity rail – both up on 2011 figures
- However almost half of all respondents (45%) believe commuter rail services have deteriorated in the last five years.

Infrastructure is a crucial catalyst for regeneration

Quality infrastructure can unleash the latent growth potential in local economies, improving the productivity of businesses and drawing new investment into the area. The right infrastructure provides better access to labour markets, increases competition, links firms up with their customers and suppliers, and improves access to domestic and international markets.

Without the right links however, business investment risks being held back. The survey asked respondents how significant the UK's domestic transport connections are to their future investment decisions. Nearly two thirds (62%) say domestic connections have a significant bearing, with only 20% saying such connections do not affect where they choose to invest.

For multinational firms the quality of domestic transport connections has even greater significance. For businesses operating in over 50 countries, more than four fifths (82%) report that the quality of UK domestic connections has a significant impact on their investment decisions, with only 2% indicating it has no bearing at all. With fierce competition for globally mobile investment, it is clear that without good domestic connections, growth prospects will be held back.

82%

Multinationals who view domestic transport links as significant when making investment decisions

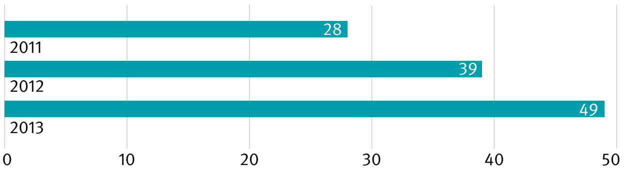
Business satisfaction with domestic links is declining

The survey asked respondents how satisfied they are with their operations' transport links to other UK regions. While just over half of respondents (51%) say that they are satisfied with their links, this left nearly half of all businesses (49%) not satisfied with these connections, including some 13% 'not at all satisfied'.

The result in 2013 marks a continued decline compared to the two previous years, with a mounting proportion of firms dissatisfied with their domestic transport links (**Exhibit 30**). The proportion of businesses not satisfied with their domestic links has increased significantly since 2011, rising from 28% to 49%. Dissatisfaction levels are particularly high in the transportation and storage sector, with 56% of respondents not satisfied and 19% not at all satisfied.

This suggests that wider business perceptions about weaknesses in the UK's domestic transport links are held even more strongly among those who rely on them most.

Exhibit 30 **Respondents dissatisfied with links to other UK regions (%)**



The extent of satisfaction inevitably varies from one part of the country to another. This reflects the uneven impact of major infrastructure projects, the different needs of individual regions and varying funding allocations.

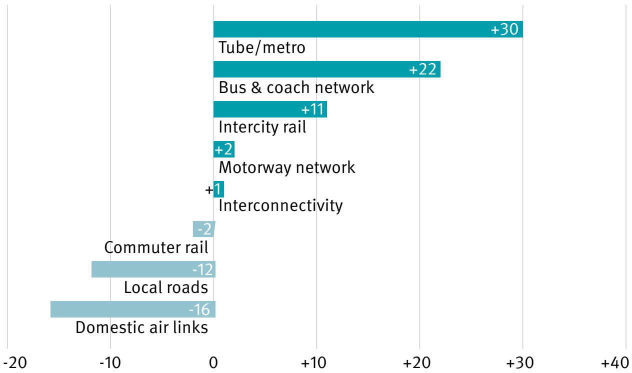
London is among the highest scored regions on satisfaction with domestic connectivity, with 70% of companies primarily based there satisfied with their connections, compared with an average of 51% nationwide. The East Midlands (71%) and the north west (69%) also score relatively highly, suggesting that densely populated parts of the UK tend to be more satisfied with their domestic transport links.

By contrast, those parts of the UK with lower population density tend to score much lower. For instance, just a quarter (25%) of businesses in the south west are satisfied with domestic links, and only 21% in the east of England and the north east. It is notable that these regions closely match up with the location of some of the UK's most pressing priority road projects. In the south west, the upgrade to the A303 would deliver a significant boost to business investment and tourism in Devon and Cornwall, while in the east of England, upgrades to the A14 are needed to boost freight connections with Felixstowe and tackle congestion. In the north east, improvements to the A1(M), including the Western Bypass, would benefit the region by boosting links to the rest of the UK, while better connecting the region to its air links and ports.

Key pinch-points from 2011's survey remain firmly entrenched

Chapter 1 showed limited confidence that transport networks would improve over the next five years, and this perhaps owes much to the fact that in many areas, businesses have seen no improvement over the last five. The 2011 survey highlighted a number of pinch-points in the UK's domestic transport network that particularly worried businesses. Asked how they felt the major transport networks of the UK had changed over the previous five years, businesses at that stage pointed to deterioration in local road networks and motorways, as well as concerns about overcrowding on the UK's commuter rail network as key concerns. Local roads featured as by far the largest concern, with 63% saying they had deteriorated, compared to just 6% reporting improvement, giving a negative balance of -57%. Motorways featured as the second highest worry, with a negative balance of -29%, while commuter rail scored -23%.

Exhibit 31 **Change in perceptions of UK transport since 2011 (% balance)**



Note: Figures based on change from 2011 to 2013 of balance of 'improved' ratings minus 'deteriorating' ratings assessing infrastructure over the last five years

Two years on, the UK has seen improvements to some important areas of the transport network, but major pinch-points remain. A comparison of the balance scores in 2011 and those in 2013 indicates how business perceptions of domestic transport infrastructure have altered over the period (**Exhibit 31**). While assessments of the motorway network are less negative than they were (-27%, rather than -29%, giving an improvement of +2%), commuter rail has declined by a further two percentage points to -25%, while local roads has dropped by 16 percentage points, falling to -73%.

In 2013, most forms of public transport are seen as improving...

On the positive side, businesses in 2013 perceive most forms of public transport as having improved in the last five years. Tube and metro networks have seen the greatest improvement, with 62% of respondents in 2013 seeing these networks as having improved, up from 41% in 2011. The positive rating is particularly high in London, where almost three quarters (73%) of businesses believe the Underground has improved, and even higher in the north east at 77%, reflecting investment in the Tyne and Wear metro network.

Also viewed positively are changes to the bus and coach networks, with 34% of all respondents reporting that these have improved over the last five years, compared to just 12% who feel they have worsened. Results again vary considerably by region. Over half (55%) of businesses based primarily in the north west consider the bus and coach network has improved in the past five years against just 5% that feel it has worsened (+49%). There are also strong positive balances in London (+36%) and Scotland (+32%). While some regions scored much lower, in no single region do a balance of employers consider services have deteriorated.

...but assessments of rail deliver a mixed picture...

Assessments of the performance of intercity rail vary widely between regions. Overall, the picture is broadly a positive one, with 40% of all respondents noticing an improvement in the network, compared to 24% that feel it has deteriorated.

Drilling down into the regional results, however, delivers a more mixed picture. Businesses based primarily in the Midlands gave a positive assessment overall: 56% of companies in the West Midlands feel that intercity rail has improved, compared to just 11% considering it has deteriorated (a balance of +45). In the East Midlands too, a positive balance of businesses think the service has improved over the past five years (+29%). Also scoring well are intercity connections in the south east (+44%) and the north west (+33%). But for some regions the scores are very different. In the north east, 45% of businesses feel services have deteriorated, with only 18% seeing some improvement (-27%). A balance of businesses also saw deterioration in services in Northern Ireland (-23%) and the east of England (-17%).

It is notable that the regions delivering a positive assessment of rail closely matches the route of HS2, potentially indicating that confidence has been boosted by the commitment already made to get construction on the line started. That this does not spread to other regions however suggests that more could be done to articulate the benefits of HS2 to the country as a whole through onward connections, as well as providing clarity that investment in HS2 will not come at the expense of investment elsewhere.

For commuter rail however, the picture is significantly worse. Overall, just 20% of businesses feel that commuter rail services have improved over the last five years, with just 2% seeing a 'significant' improvement. This compares with 45% believing the network has deteriorated in this time, including 9% saying it has worsened significantly. Only the south east (+17%) and Scotland (+5%) score positively on balance in regards to commuter rail, while the south west (-46%), East Midlands (-45%) and north east (-41%) all deliver heavily negative assessments of networks in their area. By contrast to the wider trend in the south east, London-based businesses also score commuter rail poorly, with a balance of -31%, suggesting that while the south east more broadly may have improved, the arteries into the capital are increasingly clogged.

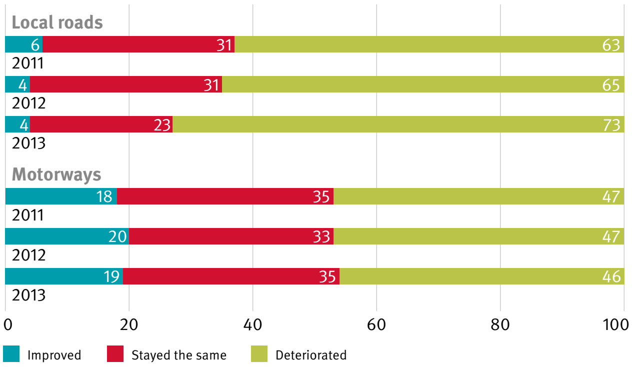
Investment in commuter rail seems in many respects to be the poor relation of intercity rail in the eyes of businesses, with a balance of respondents expecting intercity rail to improve in the next five years (+26%) while commuter rail services are expected to continue declining (-6%). This could be explained by concerns that the focus of government investment is on big projects such as HS2 and so is therefore unlikely to impact on smaller, more local rail projects.

...and the situation on the UK's road network approaches breaking point

The greatest concern for respondents in 2013 is the road network, with businesses growing ever more vocal about the need for a step change in investment. With a shortfall of as much as £8bn in the funding of Highways Agency projects and the continued need for fiscal responsibility, it is clear that a step change in investment is called for which the government alone cannot deliver. The impact of delayed decisions on bringing about that change is increasingly weighing on road users.

On balance, motorways and local roads are both perceived by businesses as having deteriorated in the past five years. Almost half of all respondents (46%) think the motorway

Exhibit 32 **UK roads: trends of last five years (%)**



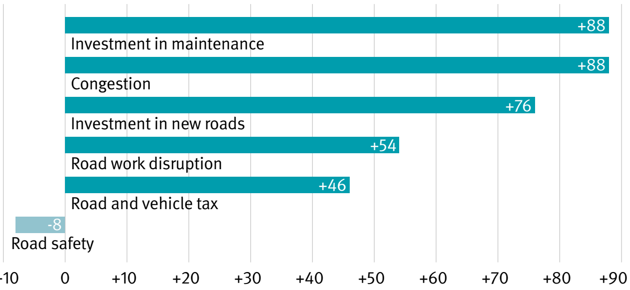
network has become worse, compared to one-fifth (20%) who feel it has improved. Businesses saw an even greater decline in local roads however, with almost three quarters (73%) of respondents viewing them as having deteriorated and just 4% who feel they have improved – a negative balance of -69%.

Reviewing the last three years' results (**Exhibit 32**) indicates that these perceptions of the motorway network have remained constant. For local roads however, the proportion of businesses reporting deterioration has been growing over the period, with the negative balance rising by ten percentage points over just two years (from -59% to -69%).

To tackle this, after initially cutting capital spending on infrastructure sharply in 2010, the government has committed increasing amounts of funding to the road network, including additional resources for repair, maintenance and improvement (RMI) and creation of a pinch-point fund designed to tackle bottlenecks in the regional road network. But our findings suggest this funding has so far failed to bring about tangible improvements on the ground. This lack of demonstrable progress is undermining confidence in future prospects: nearly nine-tenths (88%) of respondents expect either no improvement or continued deterioration in the local road network in the coming five years.

Devolution of powers on infrastructure spending to the regions can deliver significant spikes in investment, as has been shown in both London and Scotland – but only if it is done well, with decisions being made by local leaders held accountable to clear priorities. Currently businesses are divided on the prospect of more local control over spending, with 46% believing it would improve delivery of local infrastructure and 46% also believing it would have a negative impact. Notably however, London (56% positive vs 33% negative) and Scotland (62% vs 28%) are much more positive, indicating that a more local approach can work well.

Exhibit 33 **Main concerns about roads (% balance)**



Note: Figures based on balance of 'concerned' ratings minus 'not concerned' ratings

Maintenance and congestion are priorities for action

The survey asked businesses what their main concerns are about the road network. As in 2012, the results show investment in maintenance and tackling congestion remain the biggest issues (**Exhibit 33**). With congestion costing the UK economy as much as £8bn a year,[14] it is perhaps unsurprising that a balance of +88% of firms responded that they are concerned about both these problems.

Limited investment in new roads is also highlighted as a major issue for businesses, with +76% of firms on balance concerned about the future of the network without substantial new sources of revenue available. While the rush of road project announcements in the Spending Round earlier this year is a welcome boost on this front, questions remain about how feasible these plans are without greater clarity on their funding, even if the introduction of a longer-term investment package for the Highways Agency provides greater assurance that funding for projects will not be withdrawn.

Exhibit 34 Companies seeing deterioration in motorways in the last five years (%)

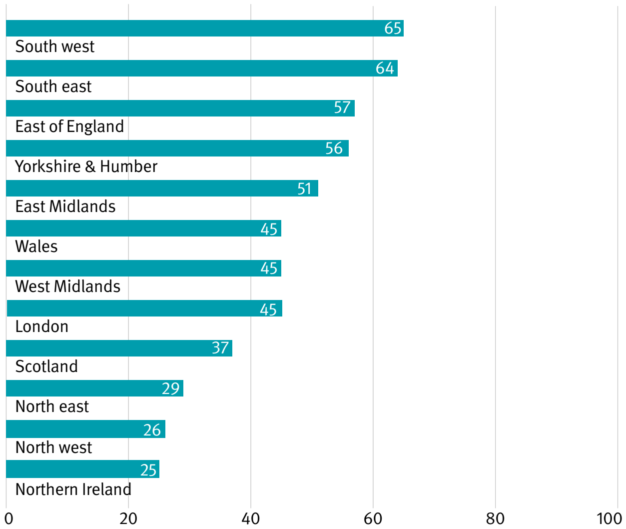
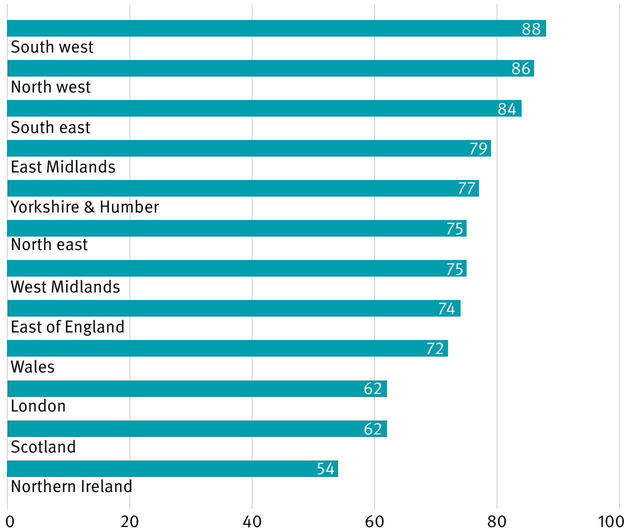


Exhibit 35 Companies seeing derioration in local roads in the last five years (%)



As with the results for rail, the extent to which businesses perceive deterioration in the road system varies by region. While a balance of firms in every region feel that the motorway network has deteriorated over the last five years, concerns are especially high in the south, with 65% of respondents in the south west seeing the situation worsening, followed closely by 64% in the south east (**Exhibit 34**).

For local roads, the south west has the largest proportion of respondents who feel there has been deterioration over the past five years, with almost nine out of ten taking this view (88%). Businesses based in the north west (86%) and south east (84%) follow closely behind. In no single region do less than 50% of businesses feel local roads have deteriorated over the last five years (**Exhibit 35**).

With confidence in roads at such low levels, we need to think seriously about the kind of network we want for the future – and how we can sustain it. Changes such as the introduction of a longer-term funding outlook for the Highways Agency are positive and provide contractors with the confidence to invest for the future, however without significant reform, funding for the UK road network will still fall short.

The CBI has proposed introducing private sector investment into the road network through the creation of a regulated asset base model. This has a proven track record in the utility sector for generating significant private investment and better standards for users. When the prime minister made the bold announcement last year about looking to leverage private sector investment into the road network, he got the attention of global investors. Since then however, this discussion has fallen away. Given the findings of this survey, businesses are keen to reignite this debate, addressing the difficult questions that need to be tackled and setting the direction of travel for the future.

4%

Firms who believe local roads have improved in the last five years

5 With huge private investment in our digital networks, businesses can do more to exploit new opportunities

Digitalisation is the electrification of the 21st century. Just as electrification transformed the way the UK worked and traded, so digitalisation offers the prospect of bringing people and markets closer together, creating new supply-chain opportunities and facilitating the flow of goods and services. Digital networks merit equal priority in the debate over how best to meet the UK's future infrastructure needs.

The UK's digital networks are rated as highly competitive in a world where connectivity is recognised by businesses as increasingly important to success. Our leading edge cannot be taken for granted, however. The rapid pace of change means continued innovation and investment are essential to ensure the UK remains at the forefront, both rolling out the latest technology and raising awareness of the commercial benefits it can bring.

Key findings

- The great majority (83%) of businesses report they have seen an improvement in the UK's digital networks in the past five years
- More than three quarters of firms (77%) believe that the UK's digital infrastructure either matches or exceeds that on offer in other countries, with over half of professional service firms (51%) viewing the UK as above average
- More than four fifths of companies view faster and more reliable fixed-line and mobile broadband (85% and 84% respectively) as critical to their future success
- While 85% of businesses view fixed-line broadband in the UK as matching or exceeding the quality found abroad, this drops to 65% for super-fast and 63% for mobile broadband
- Close to three quarters of firms (71%) feel well-informed about the benefits that greater digital connectivity could offer them, but nearly half (46%) believe their business could be making better use of the UK's digital network in practice.

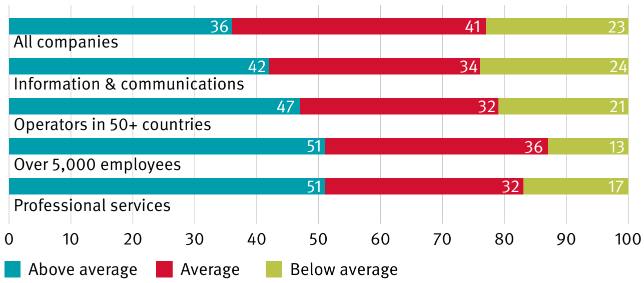
Our digital networks are a strength we can draw on

Over the past decade private investment has driven the roll-out of the UK's digital infrastructure, delivering the benefits of digitalisation to businesses right across the UK. This investment continues at pace today. According to OFCOM, from 2011 to 2012 alone average broadband speeds in the UK increased by 69%, while the proportion of households able to receive a 3G mobile signal increased from 72% to 77%.[15] As a result, 83% of businesses feel they have seen improvements in the UK's digital networks in the last five years, against just 3% who report they have not – a positive balance of +80%.

The rapid roll-out of services has served to place the UK among the front-runners internationally for the quality of its digital infrastructure networks. Asked how UK digital networks compare with those in other countries, 36% of respondents say the UK's digital network is above average, compared to 23% who think it is below (**Exhibit 36**).

Even more encouragingly, positive ratings for the UK's network are still higher among those businesses for which the quality of digital networks is particularly important for their investment decisions. In sectors directly reliant upon good quality digital links, businesses are more likely to view the UK as above average, with over half (51%) of professional services firms and 42% of information and communication firms rating UK networks positively by international standards.

Exhibit 36 **UK digital competitiveness (%)**



Multinational companies operating in over 50 markets are also more likely to view the UK's digital connections favourably, with 47% judging the UK's networks as above the international average, compared to 21% who do not. These companies often rely upon good digital connectivity to link their UK activities with broader global operations and have a wide range of options about where to locate. With 76% of these companies saying that the quality of digital connectivity significantly influences their investment decisions, our digital networks are clearly a draw for inward investors.

Businesses increasingly view digital connectivity as critical to their success...

But the pace of change in the digital economy is frenetic, and there is certainly no room for complacency. While the UK's infrastructure networks are viewed favourably today, without concerted effort, there is no guarantee the same will be true tomorrow.

Businesses are already looking to the next generation of faster and more reliable digital connectivity to play a central part in their plans for the future. Asked about the importance of faster fixed-line broadband, 85% of companies rate it as either crucial or very important, indicating how significant super-fast broadband roll-out will be over the coming years. With businesses increasingly looking to mobile digital connectivity to maximise productivity, this figure is closely matched by the 84% of businesses saying increased mobile connectivity is likely to be a critical factor in their future success. These are growing trends, with the proportion of businesses rating these forms of connectivity as important up from 78% and 76% respectively in last year's survey (**Exhibit 37**).

Exhibit 37 **Change in importance of digital networks to future success (% crucial or very important)**

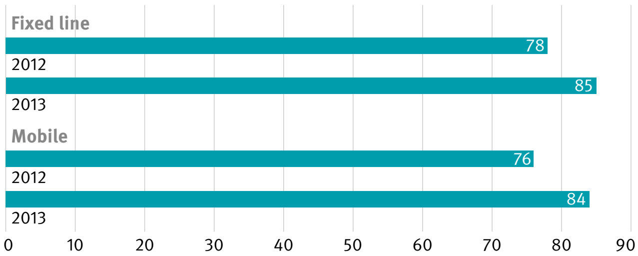
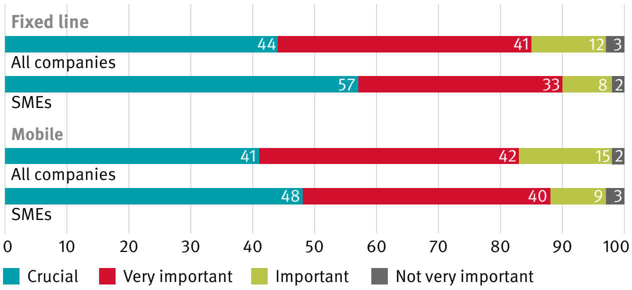


Exhibit 38 Importance of digital networks to future success (%)



Particularly notable is the importance that SMEs attach to enhanced digital connectivity (**Exhibit 38**). While 44% of the wider business community see improved fixed-line broadband as critical to future success, this jumps to 57% for SMEs. Similarly, SMEs attach a greater importance to mobile broadband, with 48% considering it critical to their future compared to 41% among all businesses. Underlying this is likely to be a growing appreciation of the advantages that digital connections can offer in particular to smaller businesses. The benefits of digital connectivity for SMEs come not only from connecting them into the UK's domestic e-commerce markets, but also from offering them unprecedented exposure in the global marketplace.

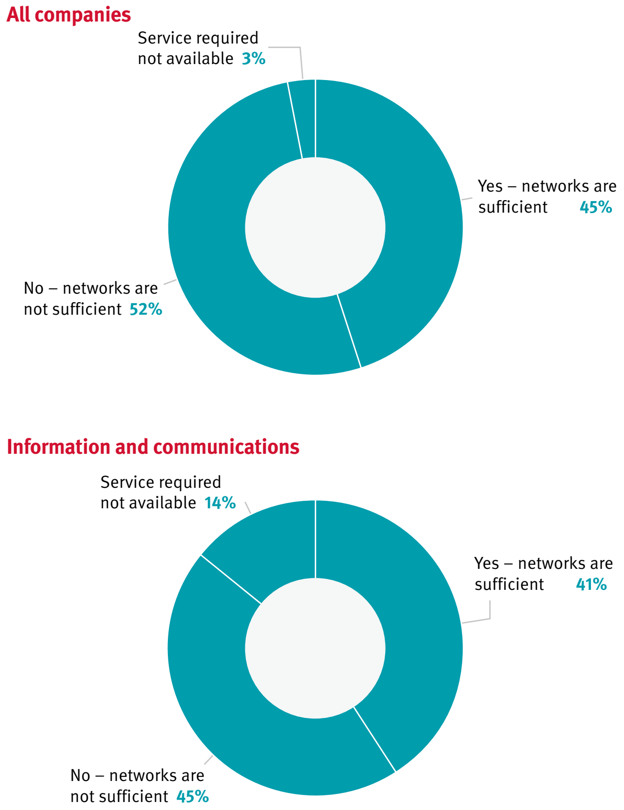
...so continued investment is essential as new technologies come online

The importance of continued investment is underlined by businesses' assessment of how well the existing network matches their ambition. While the UK scores highly when compared internationally, businesses already feel that the UK's digital network needs to evolve and change to keep pace with developments such as high-speed broadband and 4G mobile.

The survey asked whether the current quality of the UK's digital networks is sufficient for businesses to carry out their operations effectively. Under half of respondents (45%) say that current networks are sufficient for their needs, with just over half (52%) reporting they are not and 3% responding that the services they require are not available to them at the moment. SMEs are notably more likely to view the UK's digital connections as in need of improvement, with 57% considering them as insufficient and 5% stating that the services they require are not available.

Furthermore, companies in those sectors that are most heavily engaged in their use of digital networks show an increased level of dissatisfaction with the services on offer. In the information and communications sector, only 41% of firms are happy with current connectivity, with 45% reporting the quality as not sufficient and 14% saying the services they require are not yet available in the UK (**Exhibit 39**).

Exhibit 39 Sufficiency of UK digital networks (%)

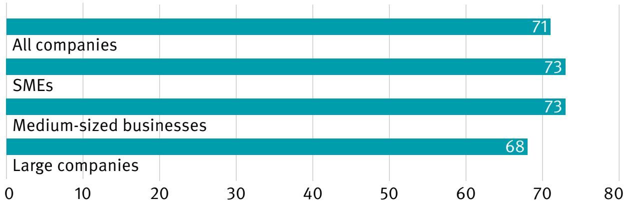


Part of this difference is likely to be due to the higher demands of firms working in the information and communications sector; however the difference may also be due to a lack of understanding among businesses not so heavily engaged with digital in their everyday operations about the possibilities a fuller utilisation of digital can bring. With greater awareness most likely comes greater understanding of where networks fall short – creating demand for new services.

In addition, assessments of the breadth, speed and reliability of different forms of digital networks indicate that businesses are generally satisfied with the quality of fixed-line broadband networks. Their concerns tend to centre on the roll-out of new technologies. While for fixed-line, 84% see the UK's network as either matching or exceeding the average standard of international networks, for superfast broadband this drops to 65% and for mobile to 63%.

Overall, action is clearly needed to cement the UK's position in the digital premier league. In the past digital provision has tended to play second fiddle to transport and energy in the infrastructure debate. The critical importance of the digital network to the way that businesses now operate, however, means it must be viewed as of equal importance. It is no longer sufficient to assume that digital infrastructure will sort itself out while government ministers concentrate on other infrastructure challenges. With digital providers currently unsure about the policy and funding landscape beyond the end of this parliament, the government needs to work with industry to develop a clear long-term strategy to keep the UK ahead of the pack.

Exhibit 40 **Respondents with a good understanding of the benefits of digital networks (%)**



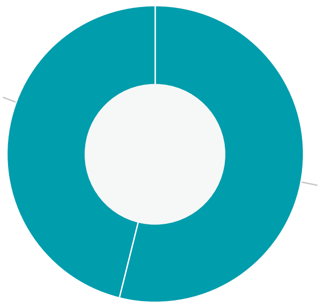
The UK is not yet making the most of its digital potential

While improving the digital infrastructure itself is a critical piece of the puzzle, the benefits of improved connectivity will not be realised if the new and improved network is not fully used by businesses. The survey asked respondents if they feel that they are well informed of the benefits that greater digital connectivity could bring to their businesses. Positively, close to three-quarters (71%) responded that they feel they do understand the benefits, with SMEs and medium-sized businesses slightly more likely (both at 73%) to feel that they have a good grasp of the potential (**Exhibit 40**).

46%

Business leaders who feel their businesses could be making better use of digital networks

Exhibit 41 Effective use of digital networks (%)



Asked whether they feel that their business is currently making the best of the digital connectivity available to it, however, respondents were less positive. Nearly half (46%) of respondents believe that their business could be making better use of digital connectivity (**Exhibit 41**). This finding suggests that while awareness of the potential is high, knowledge of how to turn opportunity into reality and action to do so still lags behind. Business use of digital networks and demand for new services would both be boosted if government and industry can work together to close this gap.

Positively, the results indicated that those businesses currently with operations only in the UK score significantly better. Among these firms 61% feel they are currently making the best use of the UK's digital networks, compared to 54% among businesses overall. This illustrates the importance that businesses with no physical operations in markets abroad attach to using digital connectivity to reach out to new customers.

With 46% not making the best use of our digital strengths, the UK is missing out on substantial potential benefits. International comparisons indicate for example that currently only 14% of UK SMEs are selling online, compared to more than double that proportion in Norway (at 30%). One study suggests that the UK economy could benefit to the tune of £18.8bn a year if more SMEs marketed and sold online.[16]

There is no silver bullet for boosting business demand for digital services and their effective use. As highlighted in the CBI report *Let's get digital*,[17] it requires government and industry to work together to deliver a coherent plan to increase awareness of the tangible commercial opportunities available, combined with promoting greater understanding about how to place digital at the heart of business operations. But an effective strategy could play a major part in setting the UK on a path to sustainable economic growth, founded on increased international trade.

6 Government can take practical steps to boost the pace of delivery

It is clear that ministers understand the importance of creating the right climate to help businesses invest in infrastructure. Tools such as the UK Guarantees Scheme and planning reform have been welcomed, but too often the implementation of schemes is slow and progress not obvious. Even the best scheme will be rendered pointless without the right marketing to raise awareness and the right scrutiny to make it workable. Despite the government's efforts, the pace of infrastructure delivery remains slower than desired. Without meaningful change on the ground, business confidence in the government's ability to prioritise, procure or deliver the right infrastructure will remain low.

Addressing the long-term challenges outlined in previous chapters requires a clearer vision of the infrastructure the UK needs, who will deliver it and how it will be funded. While infrastructure investment and parliamentary cycles remain unhappy bedfellows, more must be done to reach political consensus on long-term priorities and short-term actions to help deliver them. Practical reforms such as tackling delays in the planning system, creating a clear pipeline of projects and injecting greater commercial nous across Whitehall can be dealt with immediately and would lay the right foundations for future investment.

Key findings

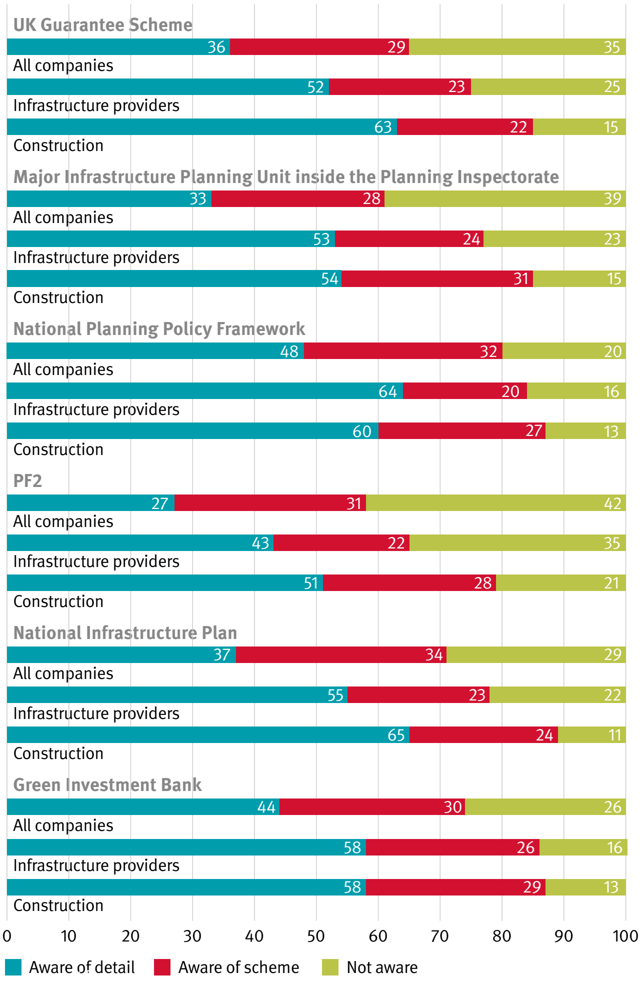
- Awareness of government initiatives remains relatively low, even among infrastructure providers and construction firms. Nearly half of infrastructure providers (45%) have not considered the National Infrastructure Plan when making investment decisions
- Businesses value government initiatives but think there is significant room for improvement: just 8% view the UK Guarantee Scheme as fully effective at the moment but 73% see it as partially effective, underlining its potential
- Businesses view action to tackle costs and delays in planning, steps to raise levels of commercial expertise in government, a clearer pipeline of projects and further improvements to the investment environment as key focal points to boost infrastructure provision
- Despite welcome reforms, planning is still considered a barrier to development by 96% of businesses, with 71% considering it a significant barrier.

The benefits of government action are being held back by lack of awareness...

The last 18 months have seen an impressive range of new measures introduced to get Britain building. From the simplification of planning procedures to the introduction of the UK Guarantee Scheme, ministers are keen to unblock investment in and delivery of projects of all sizes.

Welcome as these steps have been, the government still faces a major communications challenge to convince businesses of the scale and significance of its initiatives. Our survey results indicate that business awareness of the new schemes is low, even among those involved in the funding and building of infrastructure (**Exhibit 42**).

Exhibit 42 Awareness of government infrastructure schemes and bodies (%)



The survey asked how aware businesses are of six of the government's schemes and innovations:

- The UK Guarantee Scheme
- The creation of a Major Infrastructure Planning Unit inside the Planning Inspectorate
- The National Planning Policy Framework (NPPF)
- Private Finance 2 (PF2)
- The National Infrastructure Plan (NIP)
- The Green Investment Bank (GIB).

Awareness of the schemes is broadly low among the general business community, with often only a third of businesses having heard of particular initiatives. More worrying still is the low level of awareness among the businesses the schemes are primarily targeting: infrastructure providers and construction firms. Construction firms are on average more aware of the schemes, but knowledge of the schemes' details rarely rose much above 60% and at times fell below 50%. The NPPF scores most highly, with 64% of infrastructure providers and 60% of construction companies aware of its aims and purpose. The UK Guarantee Scheme and the National Infrastructure Plan both score closer to 60% for construction firms, but awareness among infrastructure providers is lower at closer to 50%.

This leaves a consistently large number of relevant businesses either unaware or unengaged with the detail of these schemes. Particularly noteworthy is that almost half (45%) of all infrastructure providers have either not heard of or not looked at the National Infrastructure Plan (NIP), the government's flagship publication designed to outline the UK's infrastructure priorities. One explanation may be that the plan, as it currently stands, falls short of an actual delivery plan that may be of more use to businesses thinking of investing in UK infrastructure.

48% **Infrastructure providers not aware of what the UK Guarantee Scheme does**

Exhibit 43 **Future development of the National Infrastructure Plan**

The introduction of the National Infrastructure Plan to signpost to constructors and investors the government's top infrastructure priorities has been a step forward, but more can be done to turn it into a useful document for investors. Broadly speaking, businesses need a better, more accessible format, a clearer sense of priorities and access to the information they need to help them plan for the future. This means:

- A 'living' document, providing the most up-to-date information on opportunities
- Fewer priorities that more clearly match up to government's set-piece announcements
- A more forward looking outlook, providing details of the next steps for each project
- Clarity on project funding models
- A clearer sense of sequencing of different projects, making clear where one project is reliant on the completion of another.

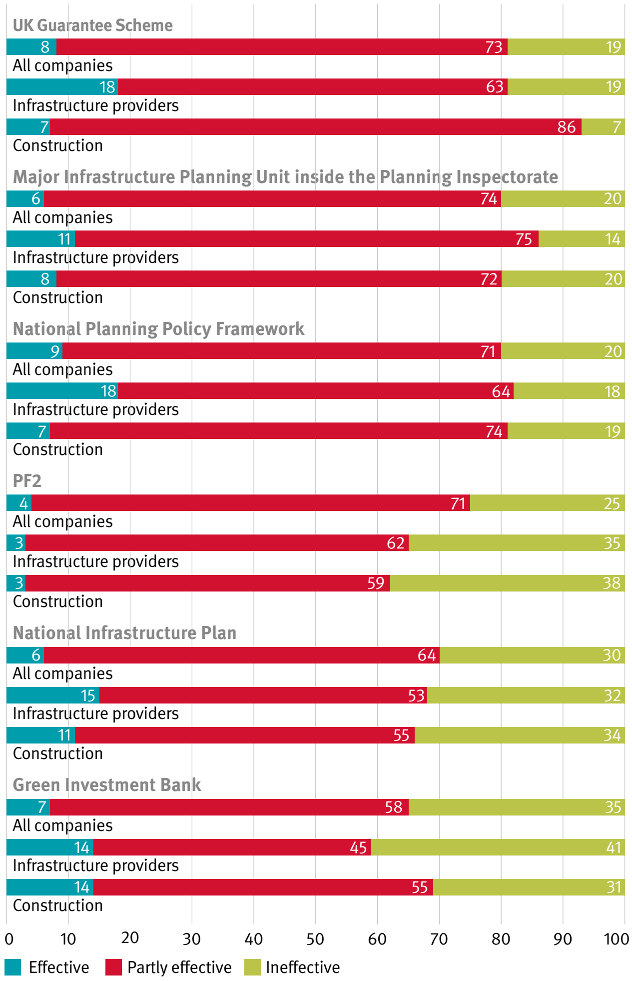
While a genuine pipeline could instil investor confidence, with 40 schemes and programmes and no timelines, the existing NIP does little to provide businesses with a clear sense of the UK's priorities and how private investors can get involved (**Exhibit 43**).

A similar proportion of infrastructure providers have also not heard of, or are not aware of, the UK Guarantee Scheme (48%), designed to help boost private investment in major infrastructure projects. With such a high proportion of relevant companies unaware of the scheme or what it aims to do, it is possible that a lack of awareness is holding back uptake, potentially explaining why only three deals have so far been struck.

...and those respondents aware of the schemes say they could be improved

The survey asked those who were fully aware of each scheme how effective they were in achieving their stated aims. In most cases, respondents felt the schemes make a positive contribution, but relatively few saw them as fully effective.

Exhibit 44 **Effectiveness of government infrastructure schemes and bodies (%)**



Respondents are most positive about the UK Guarantee Scheme, the introduction of a Major Infrastructure Planning Unit inside the Planning Inspectorate and the NPPF, with a fifth or fewer rating these schemes as ineffective (**Exhibit 44**). Furthermore, construction companies and infrastructure providers tend to be even more likely to say these schemes have a positive impact. Among construction companies for example, only 7% consider the UK Guarantee Scheme to be ineffective.

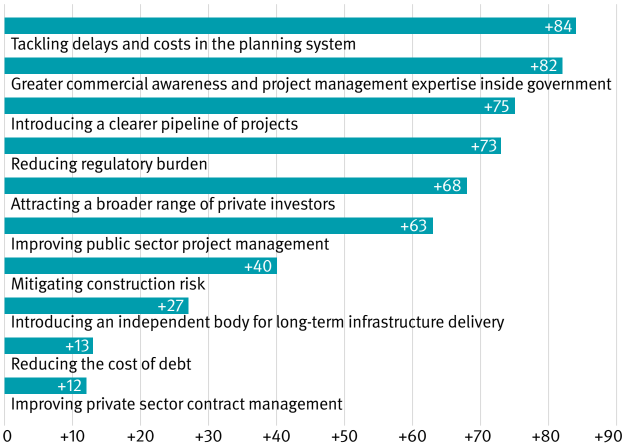
Assessments of PF2, the National Infrastructure Plan and the Green Investment Bank are markedly less positive, however, with around a third of respondents viewing these schemes as ineffective. In all, 41% of infrastructure providers view the Green Investment Bank as ineffective, while 38% of construction companies rate PF2 as unlikely to have any impact. While PF2 is still relatively new to the market and still bedding in, action to turn the Green Investment Bank into a proper bank capable of borrowing should be taken as quickly as possible.

Of those respondents who think the schemes will deliver a positive impact, few feel that they are achieving their stated aims in full. Fewer than 10% of businesses fully aware of the detail of the schemes rate them as fully effective, with just 6% rating the National Infrastructure Plan as a success. Companies are particularly sceptical about PF2, though this may well be linked to the fact that at the point of writing, no contracts have been signed under the scheme, with government signalling that it will apply only to a very narrow set of projects.

While the results show very low numbers of respondents viewing these schemes as particularly effective, very few describe them as completely ineffective either. In all cases except for the Green Investment Bank, the majority of businesses that know about the schemes see them as 'partially effective' – a figure that rises to three-quarters of companies for many of the schemes. This result suggests that businesses see some potential in many of the schemes. 86% of construction firms for example see the UK Guarantee Scheme as 'partially effective'. This may reflect the fact that while they see the potential of the scheme to overcome particular blockages in project investment, with only three projects so far announced the scheme remains largely untested.

In other cases, it may be more of a matter of getting the implementation right. The introduction of the NPPF for example has been broadly welcomed by businesses across the country, with an increase in the number of planning approvals accepted and a recent acceleration of the speed at which local authorities are looking to create or update local plans.

Exhibit 45 Priorities to boost infrastructure investment (% balance)



Note: Figures based on balance of 'would make a significant difference ratings' minus 'would not make a significant difference ratings'

At the same time however, 74% of infrastructure providers still see the scheme as only partially effective. This may reflect the effect that reduced resources in planning departments is having on their ability to implement these changes. This makes further streamlining of the process a key requirement, as well as the sharing of planning resources across local authority boundaries.

Additional steps are needed to turn policy promises into tangible action...

These results suggest a 'glass half full' assessment from business on the government's action to boost infrastructure investment and free up delivery. The focus is right but implementation often patchy or half-hearted, requiring further action to tip the balance from 'partially effective' to successful. Our survey asked respondents what more government could do to get investment flowing (**Exhibit 45**).

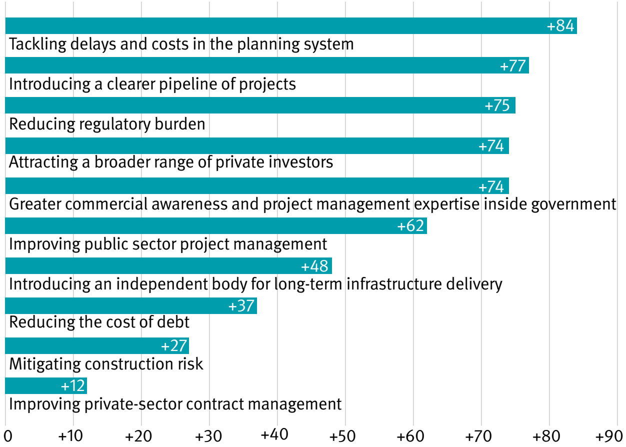
Tackling delays and costs in the planning system remains the top business demand in 2013, with +84% on balance pushing for further action on seeing through and building on the reforms already underway. Equally important is action to ensure that government has the capability and skills to work with businesses to deliver the infrastructure projects promised. A balance of +82% of companies consider that greater commercial awareness of project management and expertise inside government could play a significant role in boosting investment in infrastructure. A balance of +75% also believe a clearer pipeline of projects would provide a significant boost, indicating just how important businesses feel a forward-looking National Infrastructure Plan is to their investment decisions.

The assessment of infrastructure providers largely echoes these sentiments (**Exhibit 46**). Improving the planning system is a priority – with a balance of +84% in favour of further tweaks. A clearer pipeline of projects and a reduced regulatory burden also rank highly (with balances of +77% and +75% respectively).

71%

Firms who see planning as a significant barrier to the development of infrastructure in the UK

Exhibit 46 Priorities to boost infrastructure investment – infrastructure providers (% balance)

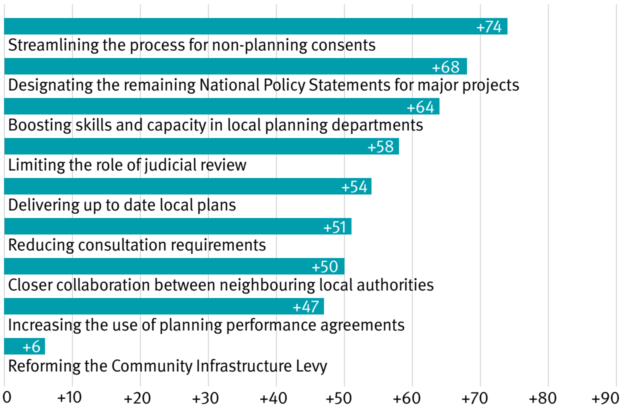


Note: Figures based on balance of 'would make a significant difference ratings' minus 'would not make a significant difference ratings'

Action to improve delivery is clearly at the forefront of minds for businesses and investors alike, showing that Lord Deighton's review of Whitehall capacity to deliver major infrastructure projects is a welcome development. As proposed by the Armitt Commission, the idea of an independent body responsible for long-term infrastructure strategy was fairly well received, with a balance of +27% and infrastructure providers even more positive about the benefits of a long-term outlook, with +48% believing it would have an impact on levels of investment.

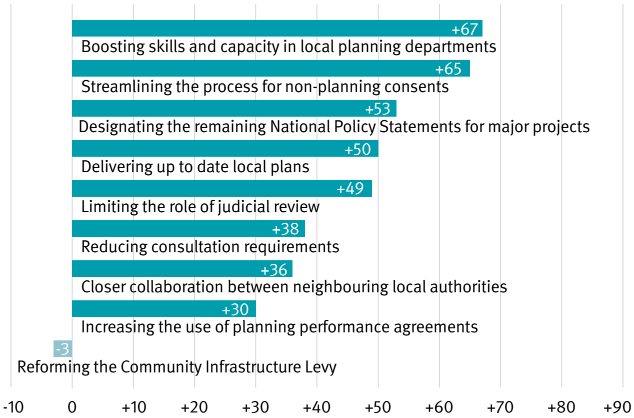
Besides measures to boost delivery, both infrastructure providers and users alike still felt that action is necessary to attract a broader range of investors, with a balance of +68% for all businesses and +74% for infrastructure providers. While the investment environment in the UK is improving (as shown in Chapter 1), perceptions of the UK as an investment location still lag behind destinations such as North America, Australasia

Exhibit 47 Action to improve planning (% balance)



Note: Figures based on balance of 'would make a significant difference ratings' minus 'would not make a significant difference ratings'

Exhibit 48 Action to improve planning – infrastructure providers (% balance)



Note: Figures based on balance of 'would make a significant difference ratings' minus 'would not make a significant difference ratings'

and the Middle East, meaning the UK still struggles to stand out from the crowd. This means that further action, such as the introduction of capital allowances on the construction of infrastructure, are necessary to help push the UK from a 'good' location to a 'great' location for investors.

...with planning in need of further attention

With action to tackle the planning system topping the poll, despite recent regulatory changes, the survey asked what more can be done to improve the system (**Exhibit 47**).

At the top of the list is streamlining of the process for non-planning consents, with a balance of +74% viewing this as a significant action for government to consider. Also rated highly is the need to designate the remaining National Policy Statements for major infrastructure projects (+68%) and improvements to boost skills and capacity in local planning departments (+64%).

Assessment among infrastructure providers highlighted similar priorities (**Exhibit 48**), although the skills and capacity of local planning departments are considered the foremost concern, with a balance of +67% believing changes in this area could significantly improve planning outcomes.

These results can help to steer early thinking about the focus of the government's 2014 review of the major infrastructure planning system. Further consideration of streamlining of the planning process at the pre-application stage, additional reform of Special Parliamentary Procedure and, as highlighted by both businesses and investors alike, an easy process for obtaining non-planning consents would go a long way towards addressing business concerns.

Strong leadership will be necessary to lay the foundations for the future

Although the business environment for construction of infrastructure has improved in the last two years, it is clear that significant investment and delivery challenges remain. While the survey results are clear about the immediate challenges involved in turning policy ideas into action, the action needed on issues such as aviation and roads, outlined in chapters 3 and 4, will require a marathon mind-set. This means taking a longer-term strategic look at what infrastructure the UK needs, who is capable of delivering it and how it will be delivered. While these long-term questions are difficult to tackle, with decisions and delivery running across successive governments, it is essential that we set in train the conversations and processes that will lead to consensus, followed by steadfast leadership to see through the result.

With over 18 months of this parliament remaining, we need to be pragmatic about what can be achieved before 2015, both to boost delivery today, while at the same time setting the groundwork for the big decisions of the future. Alongside action to increase awareness of, and fine-tune, existing policy initiatives, the CBI is calling for the government and opposition to commit to five actions in the next 18 months that pave the way towards a brighter future for UK infrastructure.

Five actions for the next 18 months

1) Boost the UK's investment environment by introducing capital allowances for the construction of infrastructure projects at the autumn statement
2) Complete all feasibility studies for road and rail projects outlined in the Spending Round and commit to detailed plans for delivery, while starting the debate on longer-term road reform by conducting an audit of the state of the road network and its costs to operate
3) Enshrine the Energy Bill into legislation and bring forward secondary legislation to provide businesses with the certainty they need to invest in our future energy supply
4) Commit to implement the findings of the Airports Commission in party manifestos
5) Collaborate with industry on a long-term plan for digital infrastructure, enabling businesses to make use of a wide range of technologies.

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