

FOUNDATIONS FOR GROWTH

CBI/AECOM INFRASTRUCTURE SURVEY 2017

OCTOBER 2017



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Foreword

This year's CBI/AECOM infrastructure survey makes one thing crystal clear: in the face of uncertainty, businesses want to see infrastructure delivery at the heart of the government's agenda.

There is no doubt that government shares business' ambition for the UK to have the high-quality infrastructure it needs to boost our competitiveness globally while improving productivity and living standards at home. And we have seen a real demonstration of its commitment; from the decision to expand Heathrow to pledges on scaling up the supply of housing and clean energy.

But the survey's findings – which this year include the views of the public alongside those of businesses – show that a confidence gap remains. Three quarters of businesses and the public are not confident that infrastructure will improve in this parliament. These concerns are reflected at a regional level too, with less than a third of businesses and the public satisfied with the infrastructure in their region.

This concern, however, must not be confused with pessimism. The results of the survey show us exactly where we can build the foundations for growth, by turning decisions into delivery. Businesses have been clear about what they want the government to get on with now, and stand ready to work in partnership; whether that's investing in our energy system or delivering the road and rail pipeline. The mixed picture across the regions also highlights the need for sustained investment across the country and real delivery from devolved authorities too. Over the longer-term, respondents were clear that actions to fix the skills shortage and steps to ensure access to talent from the EU are key to securing our long-term competitiveness and a successful Brexit.

Delivering these commitments today will unlock prosperity in the future, but this will only be possible if business and government stand shoulder to shoulder.



Carolyn Fairbairn
Director-general
CBI

Foreword

Transformational infrastructure necessitates bold decisions and a strong vision. The next five years present a huge opportunity for the government to establish a lasting legacy for future generations. In my opinion, we are entering a golden age for infrastructure that is on a Victorian scale.

But in order for this prediction to become a reality, the focus must remain on progressing the UK's ambitious infrastructure pipeline. Despite the backdrop of Brexit and political uncertainty, we have certainly seen some welcome progress this year, but it is essential that we don't rest on our laurels. As this year's survey shows, it is clear that more needs to be done to raise confidence and up the pace in which infrastructure is delivered. Now is the time to accelerate action.

Schemes such as the expansion of Heathrow Airport, Crossrail 2 and the Northern Powerhouse programme are world-class projects that provide bright beacons of British success and innovation and are vital to the country's ability to compete on a global stage. However, if we are to grasp the opportunity to make major progress on infrastructure, the issue must remain high on the government's agenda, underpinning a modern industrial strategy.

In order for the £500bn pipeline of infrastructure projects to come to fruition, we need to attract and retain people with the right skills to deliver them. And while many may see the skills shortage as a crisis, I actually see it as presenting a very real opportunity, rather than a threat. It can be argued that it is positive reflection on the growth of the industry which, if managed correctly, will bring exciting new talent to deliver the multitude of schemes. That's why it's so important that the government, industry and schools work together in order to successfully tap into the engineers of the future.



Richard Robinson
Chief executive of AECOM's
civil infrastructure EMIA

Current outlook

A sharp focus on infrastructure delivery this Parliament is needed to overcome the confidence gap

- 96% of businesses see infrastructure as important to this government's agenda, of which 55% think it is critical
- Only 20% of businesses and 26% of the public are satisfied with the pace of infrastructure delivery
- Around three quarters of businesses (74%) and the public (76%) are not confident that infrastructure will improve overall during the course of this parliament
- 62% of businesses are not confident that the UK's competitiveness will increase by 2030, with the skills shortage seen as the most critical issue to tackle to improve this position

Regional outlook: continued investment is needed across the country, while devolution must translate into results

- Only 27% of businesses and 28% of the public are satisfied with the infrastructure in their region
- Perception among business has worsened, with 54% dissatisfied with the infrastructure in their region – an eight percentage point increase since the 2016 CBI/AECOM infrastructure survey
- 42% of businesses think the devolution agenda could improve infrastructure in their region, and a quarter (25%) think it could worsen it

Brexit and trade spotlight

Skills and talent from the EU is the most critical priority for a new UK-EU relationship in key infrastructure sectors

- Business sees access to skills and talent from the EU as the most critical priority when forming a new UK-EU relationship for energy, aviation and digital sectors (43%, 42% and 48% respectively).
- EU funding is seen as most important for the energy sector (68%) while there is least confidence of receiving equivalent funding post-Brexit for the roads sector (29%)
- 45% of businesses think that road and rail access to airports and ports is most critical to improving the UK's capacity and capability to trade internationally

Sector outlook

Energy: delivering a long-term plan is mission-critical

- 58% of all businesses are not confident that energy infrastructure will improve in the coming years
- Setting out a post-2020 power sector investment framework is the most critical priority (68%) for this parliament
- Almost half of energy providers (49%) are dissatisfied with the delivery and policy environment
- Energy providers are unanimous in seeing the importance of a long-term energy plan, with three quarters (74%) seeing this as critical

Transport: focus on delivering current investment programmes

- 68% of all businesses are not confident that road infrastructure will improve in the coming years, with 61% not confident in the improvement of rail
- The view of improvement in aviation is also negative, although confidence has improved markedly since the 2016 CBI/AECOM Infrastructure Survey
- Among all transport providers, rail providers are the least satisfied with the delivery and policy environment, with 61% of rail providers either dissatisfied or very dissatisfied
- Roads delivery tops the priority list for this Parliament, with 92% seeing this as important, of which 35% see it as critical
- 65% of all firms see making progress with delivering a third runway at Heathrow as important, of which a quarter of firms (25%) see it as critical

Housing: ensure housing is an infrastructure priority

- 64% of all firms are not confident that housing infrastructure will improve in the coming years
- 88% of all respondents were not confident that the government would deliver the proposals in the 2017 Housing White Paper
- Promoting housing as an infrastructure priority was seen as the most critical priority (43%) by business for the early years of this parliament

Digital: improving speed and connectivity is paramount

- 59% of all firms are confident that they will see improvements in digital infrastructure in the coming years, with this sector once again bucking the trend
- 67% of respondents identified faster and more reliable connections as their number one business priority
- Almost all businesses (98%) believe that strengthening Britain's cyber resilience is vital
- There are concerns about the UK's approach to cyber security with under a third (32%) of businesses feeling confident in the current strategy

Current outlook

Key stats

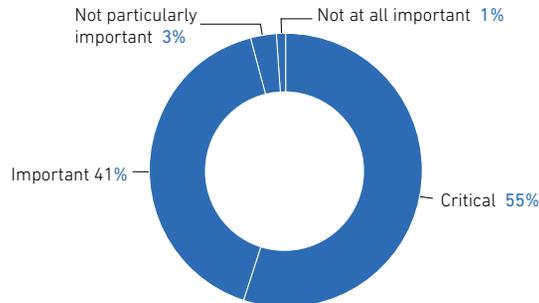
- 96% of businesses see infrastructure as important to this government's agenda
- Only 20% of businesses and 26% of the public are satisfied with the pace of infrastructure delivery
- Around three quarters of businesses (74%) and the public (76%) are not confident that infrastructure will improve overall during the course of this parliament
- 62% of businesses are not confident that the UK's competitiveness will increase by 2030, with the skills shortage seen as the most critical issue to tackle

This parliament must have a sharp focus on infrastructure delivery

Despite a backdrop of Brexit and political uncertainty following the general election, the past year has seen some welcome progress on delivering the high-quality infrastructure that is fundamental to achieving prosperity and productivity. The long-awaited decision to build a third runway at Heathrow came as a huge relief to firms across the country, demonstrating a clear commitment that the UK is open for business. This decision was followed by progress on High Speed Rail – a start, but not the end, of actions to address rail capacity – and the government's welcome ambition to build one million new homes by 2020, details of which were set out in the housing white paper.¹ Last year's autumn statement also placed a healthy emphasis on infrastructure through its National Productivity Investment Fund, including investment in local road networks and a commitment to faster and more reliable broadband.

These initiatives, along with those in the pipeline, have a powerful potential to enhance the UK's competitiveness, productivity and overall prosperity. However, if we are to grasp the opportunity to make major progress on infrastructure, the issue must remain high on the government's agenda, underpinning a modern industrial strategy. This was the clear view from respondents to this year's CBI/AECOM infrastructure survey, with the vast majority of businesses (96%) thinking infrastructure should be an important priority for the government this parliament, of which over half (55%) saw as critical (**Exhibit 1**). Maintaining infrastructure's priority status will therefore be crucial if we are to turn momentum into delivery.

Exhibit 1: Business views on the importance of infrastructure in the new government’s agenda (%)



There is a satisfaction and confidence gap to overcome among business and the public

The need for a greater emphasis on delivery is brought into focus when considering respondents' satisfaction on infrastructure delivery in the UK. When asked for an assessment of the pace of infrastructure delivery, just 20% of businesses were satisfied in contrast to 60% who felt dissatisfied (**Exhibit 2**). This concern is shared among the public. For the first time, the CBI/AECOM infrastructure survey commissioned YouGov to take the public’s pulse on infrastructure issues, and found that just 26% of people were satisfied with delivery pace, compared with 41% who were dissatisfied. It is worth noting, though, that a third of the public did not have strong feelings either way, with 34% feeling neither satisfied nor dissatisfied.

Dissatisfaction about the pace of infrastructure delivery today is also coupled with doubts about improvements to infrastructure in this parliament. Almost three quarters (74%) of business respondents felt either not confident or not at all confident in improvements to infrastructure over the life of the current parliament (**Exhibit 3, page 10**). When similarly questioned, an almost identical proportion (76%) of the public also lacked confidence in future improvements.

Exhibit 2: Business and public satisfaction with the pace of infrastructure delivery in the UK (%)

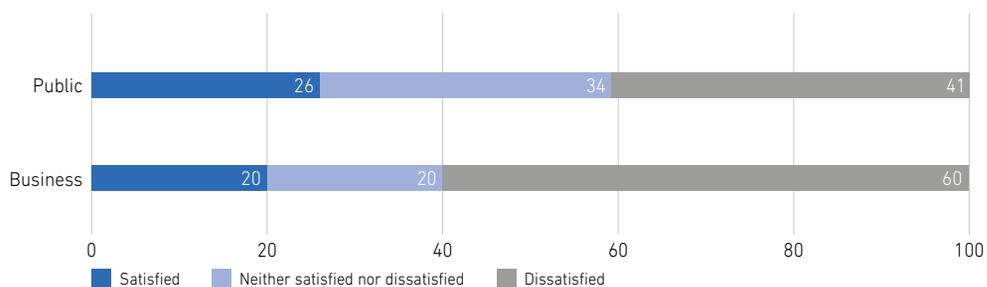
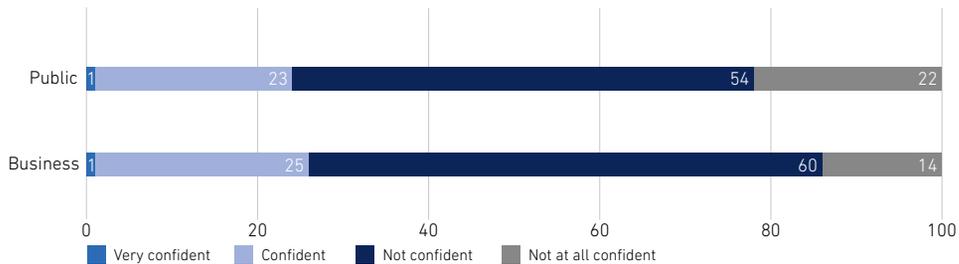


Exhibit 3: Business and public confidence in improvement to UK infrastructure over the life of this parliament (2017-2022), %



Business sees uncertainty in politics, policy and pipeline as holding back improvements

Among those businesses that lacked confidence in improvements to UK infrastructure, the reasons were clear: policy inconsistency (+94%) and political risk (+86%) are seen as the major factors holding back progress (**Exhibit 4**). These issues are even more pronounced for providers of infrastructure, with +98% and +90% highlighting these as risks to future improvements, respectively.

With the survey having been conducted in the months directly following the general election and during the early rounds of EU exit negotiations, it is perhaps unsurprising that political risk is high on businesses' minds. With this backdrop, and with the long-term nature of many infrastructure investments, it is even more critical that we see clear leadership and policy stability to restore confidence. A balance of over two thirds of providers (+68%) also cited a lack of certainty in the infrastructure pipeline as a challenge. With many of the projects in the current rail pipeline (Control Period 5), for example, being deferred to Control Period 6, this sentiment is understandable. In order for companies to commit to the long-term nature of contracts to provide infrastructure, business needs to see a more stable and steady pipeline, with bankable projects that have sufficient detail for investors.

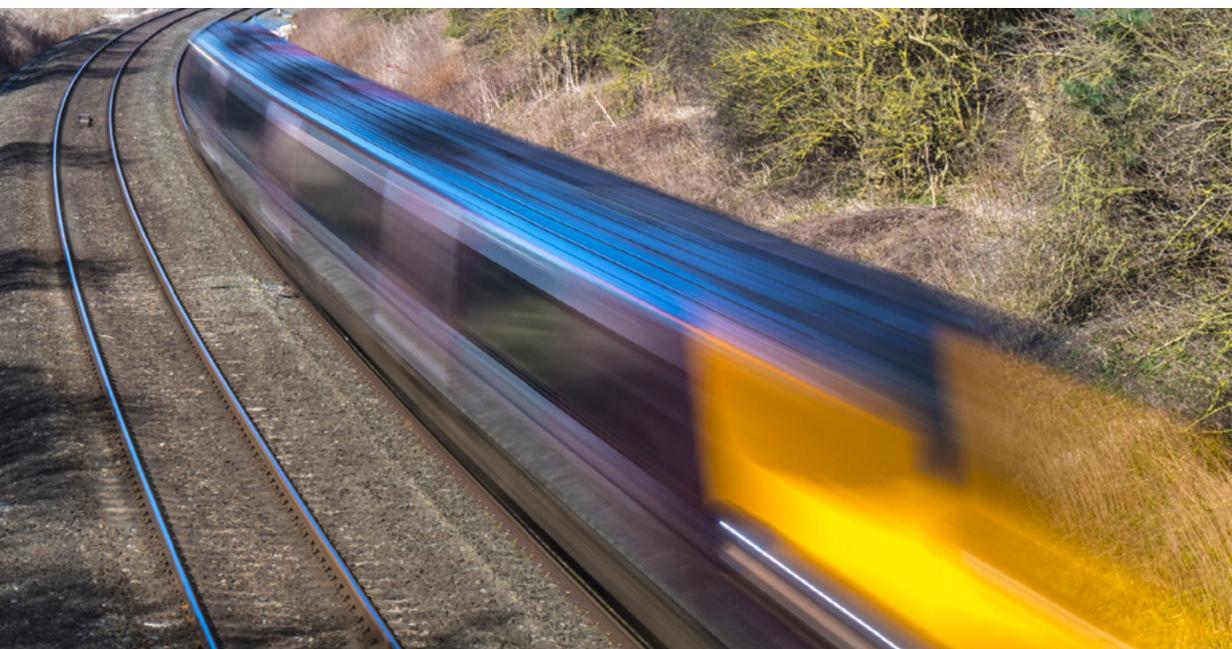
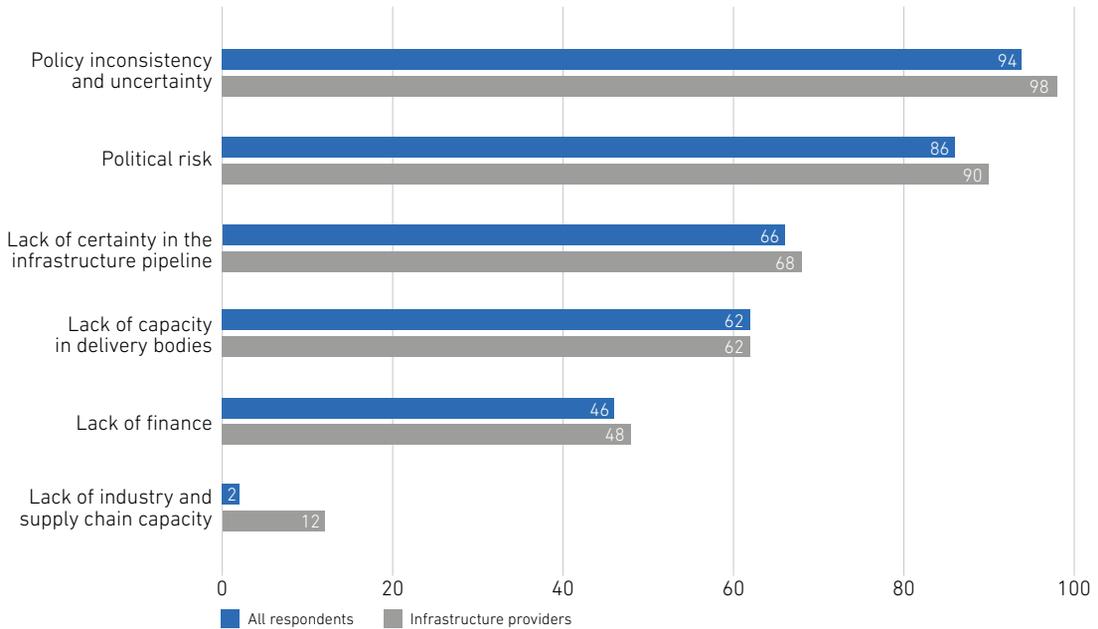


Exhibit 4: Business views on factors holding back infrastructure improvement (% balance)



A focus on skills, along with a strategic and holistic approach to infrastructure is needed to secure the UK’s long-term competitiveness

Looking to the longer term, confidence around the UK’s competitiveness is mixed. When asked to assess competitiveness out to 2030, 62% of businesses were either not confident or not at all confident that it will have increased (Exhibit 5). However, compared to last year’s results, in the very long run out to 2050, confidence in the UK’s competitive position has improved marginally (Exhibit 6, page 12). Nearly half of all respondents (46%) in this year’s survey were confident of an increase in the UK’s future competitiveness, compared to just 36% in the 2016 CBI/AECOM survey,² marking a ten percentage point boost. While this is positive, it is perhaps too early to draw strong conclusions on this as a trend, given that last year’s data was collected either side of the EU referendum, when uncertainty about the long-term picture for the UK was especially high.

Exhibit 5: Business confidence that UK international competitiveness will have increased by 2030 and 2050 (%)

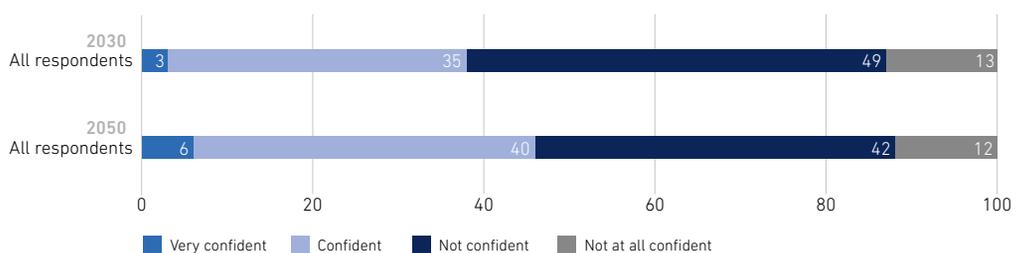
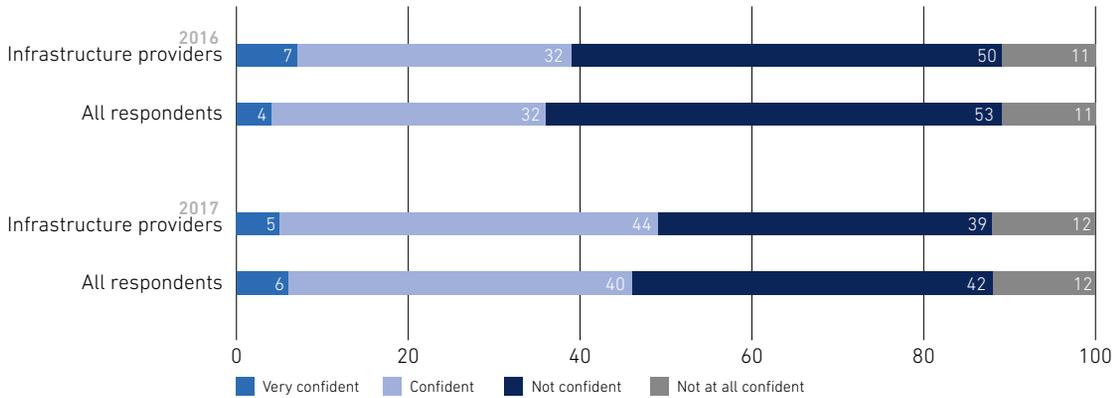


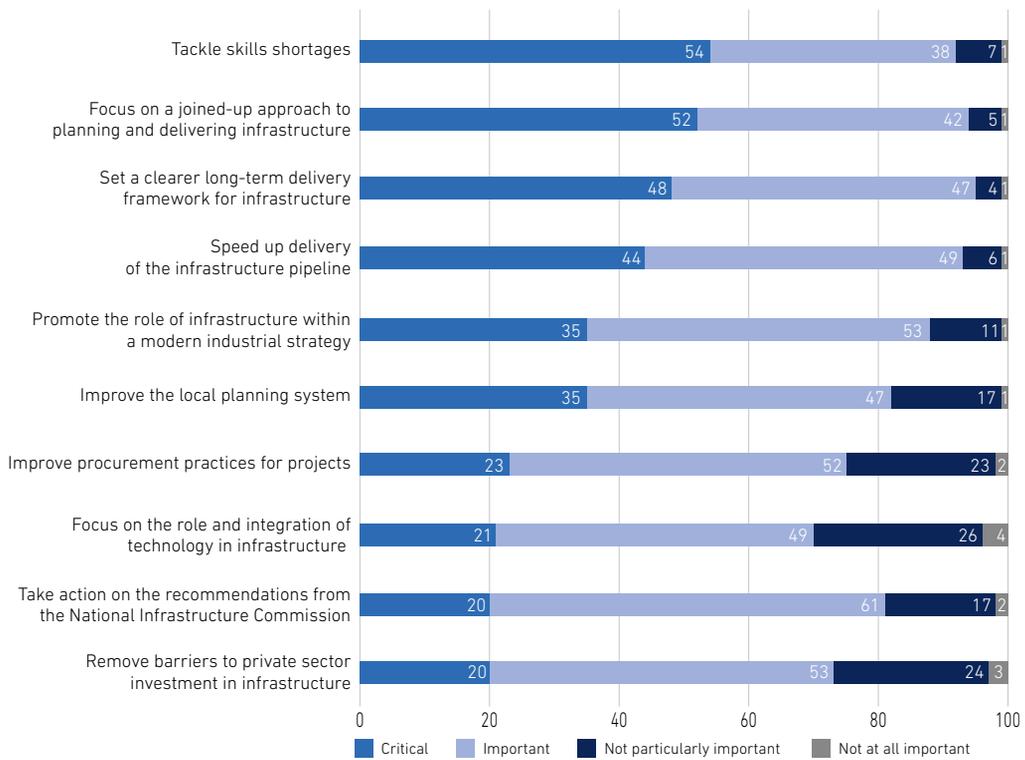
Exhibit 6: Business confidence that UK international competitiveness will have increased by 2050-2016 and 2017 comparison (%)



As noted in the Industrial Strategy Green Paper,³ with the UK currently ranking 27th in the world for the quality of its infrastructure,⁴ there is quite some way to go. Indeed, when asked to highlight priorities to boost the UK's long-term competitiveness, tackling the skills shortage was identified as the most critical issue (54%, **Exhibit 7**). This correlates with the 2017 CBI/Pearson education and skills survey,⁵ in which a balance of -22% of firms in the construction sector were not confident about the supply of people with the intermediate skills they need. With 700,000 people in the construction sector set to retire in the next decade,⁶ government and industry must continue to work together to tackle the skills shortage in the sector as a core tenet of the industrial strategy. This means greater investment in the skills of British workers and ensuring that companies can recruit the people and skills they need from outside the UK.

Skills was closely followed by the need to focus on a joined-up approach to planning and delivering infrastructure (52%) and setting a clear long-term delivery framework (48%), which comes top for overall importance (95%). This perhaps highlights the importance of the National Infrastructure Commission's (NIC) recent National Infrastructure Assessment,⁷ where over 80% of respondents (81%) wanted to see action taken on the NIC's recommendations.

Exhibit 7: Business infrastructure priorities to drive UK long-term competitiveness (%)



* Respondents were advised but not restricted to select three critical priorities



Regional outlook

Key stats

- 27% of businesses and 28% of the public are satisfied with the infrastructure in their region
- Perception among business has worsened, with 54% dissatisfied with the infrastructure in their region – an eight percentage point increase since the 2016 CBI/AECOM infrastructure survey
- 42% of businesses think the devolution agenda could improve infrastructure in their region, and a quarter (25%) think it could worsen it

Dissatisfaction with regional infrastructure has increased among businesses – but views across regions paint a mixed picture

As well as being a key plank of the UK's long-term competitiveness nationally, infrastructure is absolutely crucial to driving productivity at a regional level. Indeed, analysis for the CBI's 2016 report *Unlocking regional growth*⁸ showed its critical role in connecting businesses to a broader labour market pool, a wider range of markets and to their supply chains.

Despite the importance of inter and intra-regional connectivity, both businesses and the public are on balance dissatisfied with the infrastructure in their region. Indeed, when asked to assess infrastructure in the region where they are based, just over a quarter of businesses (27%) and the public (28%) reported being satisfied (**Exhibit 8**). It should also be noted that almost a third of the public (31%) said they were neither satisfied nor dissatisfied. For businesses, however, perception has deteriorated, with over half (54%) now either dissatisfied or very dissatisfied; marking an eight percentage point increase on the 2016 results.

Exhibit 8: Business and public satisfaction with regional infrastructure (%)

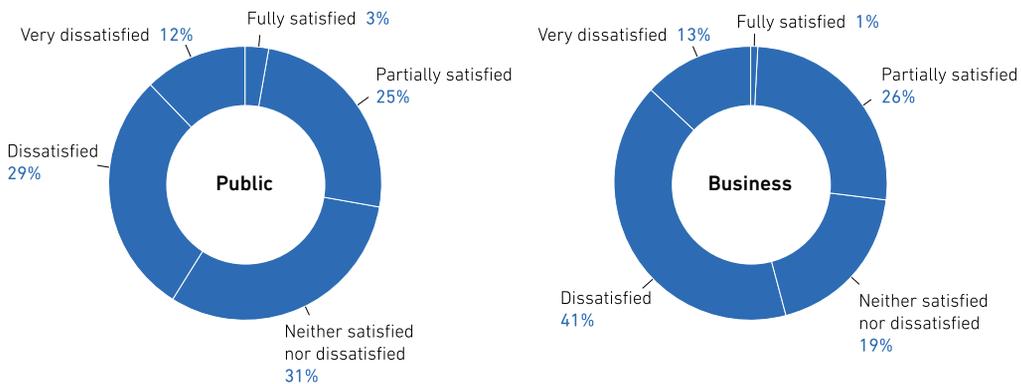
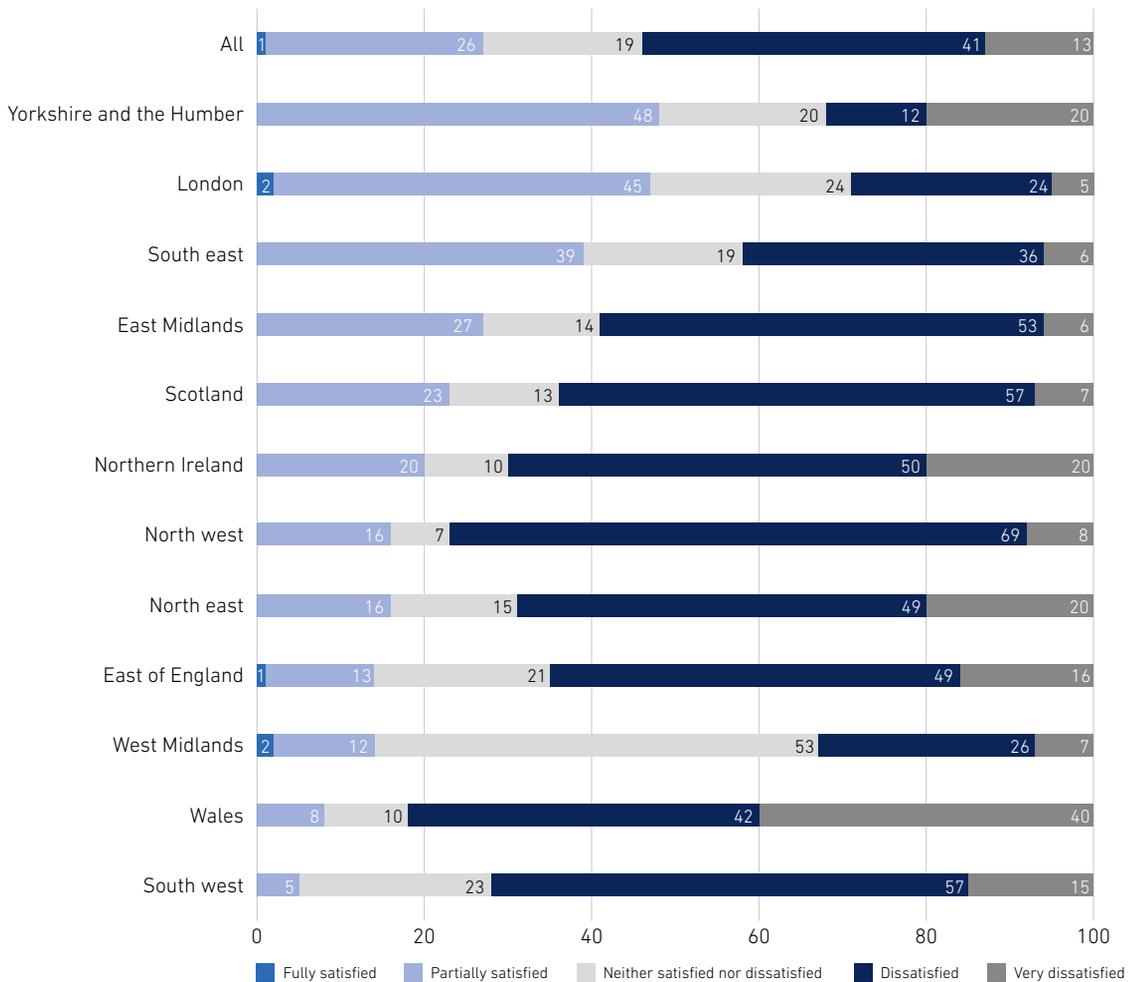
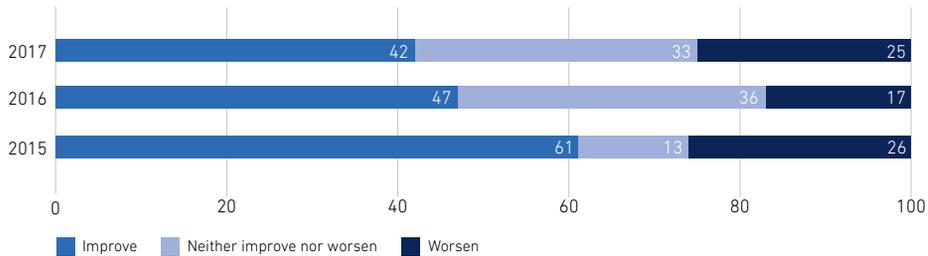


Exhibit 9: Business satisfaction with regional infrastructure by region (%)

**According to the regions where businesses are primarily based*

These overall figures, however, conceal a very mixed picture for businesses across the country, with some dramatic shifts – both positive and negative – from the previous year (**Exhibit 9**). Businesses in Wales remain the most dissatisfied (82%), but the view has worsened considerably since last year, with a 15 percentage point shift. Concerns about progress on the M4 relief road, for example, may have contributed to this. Dissatisfaction is also notably high among businesses in the north west (77%), south west (72%), Northern Ireland (70%) and the north east (69%). At the other end of the scale, Yorkshire and the Humber has overtaken London as the most satisfied region, with almost half (48%) either fully or partially satisfied, marking a 20 percentage point upswing in satisfaction – perhaps reflecting the progress being made with HS2.

Exhibit 10: Business views on the impact of devolution on regional infrastructure, 2015-2017 (%)



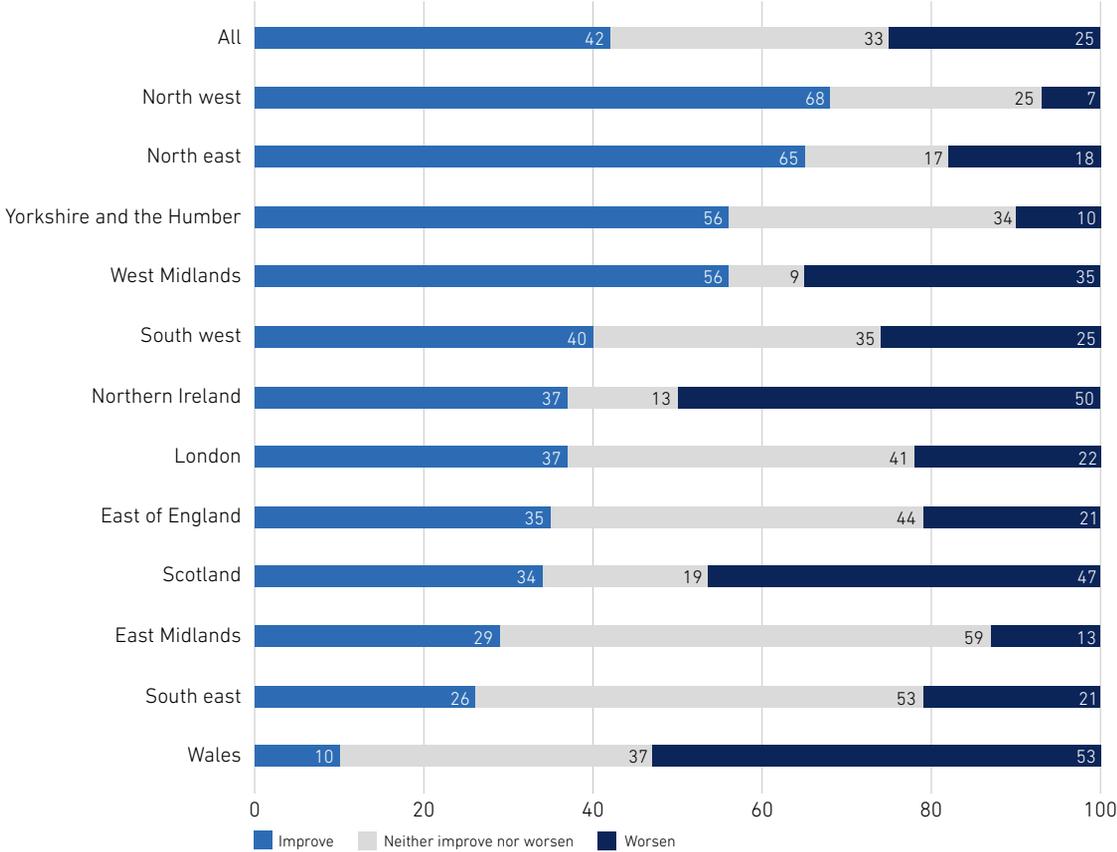
Devolution is still seen as an opportunity, but one which must translate into results

Turning to devolution, a notable trend can be seen when considering its likely impact on infrastructure in the regions where businesses are based. Those businesses that see devolution as likely to improve their infrastructure still exceed those that think it will worsen infrastructure in their region. However, enthusiasm has waned over the years, with less than half of respondents (42%) this year believing devolution will lead to improvements (**Exhibit 10**), which is down year-on-year when compared to both the 2015 and 2016 CBI/AECOM surveys,⁹ where 61% and 47% respondents respectively felt optimistic about the impacts of devolution. Rather than seeing significant increases in those businesses thinking devolution will worsen infrastructure in their region, the shift seems to be more towards those that feel it will neither improve nor worsen infrastructure. These findings indicate that devolved governments will need to go further to improve business confidence and to ensure that plans will be delivered.

Digging deeper, perceptions of devolution remain fragmented across the regions and nations (**Exhibit 11**). Despite having two of the regions most dissatisfied with their infrastructure, optimism about the impact of devolution is greatest among businesses across the Northern Powerhouse. The north west once again saw the highest potential for improvement at 68%, closely followed by the north east (65%). The West Midlands – part of the Midlands Engine – is on par with Yorkshire and the Humber, with over half (56%) seeing devolution as likely having a positive impact.

In contrast, the devolved nations are much less optimistic, with more businesses in Wales, Scotland and Northern Ireland of the view that devolution will in fact worsen, rather than improve, regional infrastructure. Again, this perhaps emphasises the need for devolution to translate into tangible results for business.

Exhibit 11: Business views on the impact of devolution on regional infrastructure, by region (%)



**According to the regions where businesses are primarily based*

We must avoid an 'either/or' debate about regional infrastructure

Looking at the overall regional picture, it is clear that there is much further to go to improve and rebalance perceptions of infrastructure across the country. With seven metro mayors now elected, government commitments to more devolution deals, and Transport for the North set to become the first Sub-national Transport Body with formal statutory status,¹⁰ there are promising prospects that the situation could improve. But for this to be the case, and for regional infrastructure to amount to more than the sum of its parts, devolution needs to produce meaningful change, with real collaboration between local and national leaders. With the majority of regions showing a negative balance regarding their satisfaction in the infrastructure in their region, it is clear that improvements are needed in all parts of the country; we therefore cannot take an either/or approach.

Spotlight on Brexit and trade

Key stats

- Three quarters of firms (76%) see a negative impact on their sector if no new deal or transition period is in place, with 9% seeing a positive impact
- Business sees access to skills and talent from the EU as the most critical priority when forming a new UK-EU relationship for energy, aviation and digital sectors (43%, 42% and 48% respectively).
- Funding currently provided by the EU is seen as most important for the energy sector (68%) while there is least confidence of receiving equivalent funding post-Brexit for the roads sector (29%)
- 45% of businesses think that road and rail access to airports and ports is most critical to improving the UK's capacity and capability to trade internationally

With Brexit negotiations underway, business is prioritising a smooth transition

This year's survey took place a year after the Brexit vote, and just as negotiations for the UK's exit were kick-starting in Brussels. With the choices made around the EU negotiating table set to have a significant impact on the economic and operating environment for UK businesses – including both users and providers of infrastructure – firms will of course have a keen interest in how talks are progressing.

In considering the final outcome of the EU exit negotiations (**Exhibit 12**), respondents seemed to be most concerned about tariffs on UK/EU trade, where over two thirds (68%) expect to see a strong or somewhat negative impact on their business. Indeed, CBI analysis of a 'no deal' scenario showed that the UK would face tariffs on 90% of its EU goods exports by value, with the average tariff on UK goods exports to the EU at around 4%.¹¹ Further concerns among firms were new controls on immigration and non-tariff barriers on UK/EU trade, with 60% and 43% respectively expecting a strong or somewhat negative impact. More positively, over half of respondents (51%) saw new free trade opportunities with non-EU countries as having a positive potential impact.

These results perhaps point to the importance of delivering a smooth exit from the EU and the need for a one-step shift to new trading and regulatory arrangements (see **Exhibit 15, page 20**). Indeed, three quarters of firms (76%) think there will be a negative impact on their sector if there is no new deal or transitional arrangement in place when the UK leaves the EU, while just 9% see a positive impact (**Exhibit 13**). However, the degrees of negative sentiment vary per sector, as seen in **Exhibit 14**, which shows that businesses within production feel particularly pessimistic (-71) when compared to those operating in the public sector (-60).

Exhibit 12: Business expectations of the impact of final outcome Brexit negotiations (%)

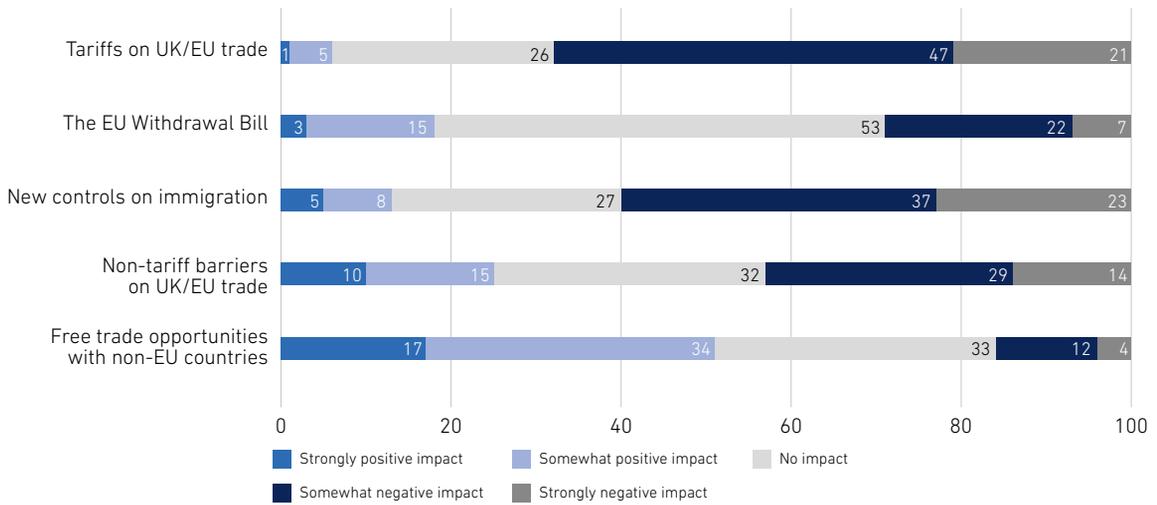


Exhibit 13: Business views on the impact of no deal or transitional arrangements at the point of EU exit (%)

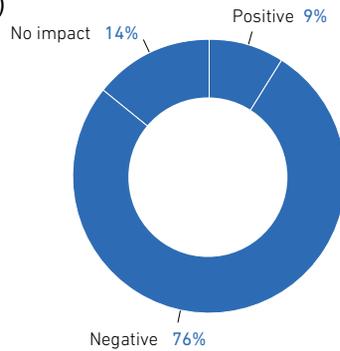


Exhibit 14: Business sector views on the impact of no deal or transitional agreements at the point of EU exit (% negative balance)

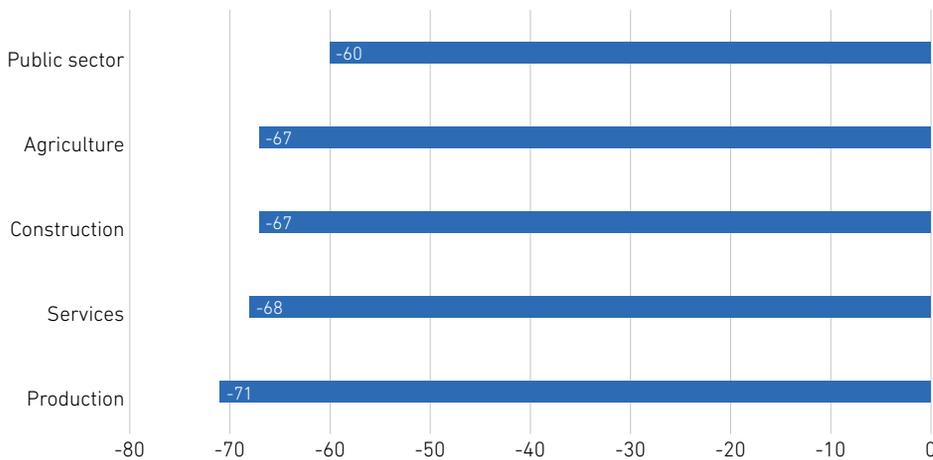


Exhibit 15: 'No deal' scenario and the importance of transition arrangements

- The approaching date of the UK's exit from the EU in March 2019 is increasingly important for three reasons. Firstly, because uncertainty is having a dampening effect on investment, with separate surveys by the CBI and the Bank of England showing 40% of businesses reporting Brexit as negatively affecting their investment. This is a drag on jobs and growth. Secondly, many companies are having to prepare contingency plans for the only scenario they can – a scenario where no deal is struck – and as the date draws nearer, more will implement these plans. And thirdly, because companies are increasingly having to begin production of products and marketing of services that will be sold after the UK's exit from the EU and do not know what the terms of sale will be.
- In the absence of progress on a detailed and comprehensive trade agreement, the CBI has identified transitional arrangements as key to providing the certainty that companies need. These must be agreed as soon as possible and be comprehensive. The 'common sense' way to achieve transitional arrangements is – the European business community believes – for the UK to be inside the single market and a customs union for a time limited period, until a new deal is in force.
- Securing comprehensive, time-limited transitional arrangements would support growth and jobs because it would give companies the confidence they need to continue investing. It would also speed up the Brexit process, if the simplest solution is selected. And it would keep prices low for consumers by keeping trade flowing without additional barriers.
- In the prime minister's Florence Speech in September, the PM stated the UK would seek an implementation phase, covering both the rules of the EU market and a customs union. This is a welcome step. The key to protecting the economy will be to secure transitional arrangements by the end of the year.



These results point to the importance of delivering a smooth exit from the EU.



Skills and talent from the EU is viewed as the most critical priority for a future UK-EU relationship in key infrastructure sectors

Focusing in on three specific infrastructure sectors – energy, aviation and digital – which are highly impacted by, and integrated with, EU rules and regulations, access to skills and talent from the EU was seen as the most critical priority by all businesses when forming a new UK-EU relationship (43%, 42% and 48% respectively – **Exhibits 16, 17 and 18**).

As seen in the 'Current outlook' section of this report, business sees tackling the skills shortage as a key infrastructure priority over the longer-term. Generating a home-grown talent pipeline is essential to solving this challenge, and business is investing heavily in upskilling its domestic workforce. However, this will take time; therefore, access to foreign talent remains an important piece of the puzzle if we are to meet the UK's infrastructure ambitions. Until now, free movement has enabled businesses to fill key skills shortages and move employees across borders with ease, with around 5% of the construction work force, for example, made up of EU migrants.¹² When the UK leaves the EU, ensuring this pool of talent remains accessible to UK business is critical, and must be reflected in any new migration system.

Looking beyond this common critical priority, businesses – both users and providers – have identified other important issues to be addressed in each sector when considering a future UK-EU relationship:

For energy (**Exhibit 16**), the Internal Energy Market (IEM) emerged as a clear priority, with 86% of all respondents citing it as a critical or important issue to address – this increased to 92% for those who were energy providers. The integration and harmonisation of member states' energy markets is important to the on-going supply of secure, low-carbon and affordable energy across Europe, and therefore business will want to see steps taken to secure barrier-free access to the IEM. Regulatory equivalence also came out as an important issue to address, with 76% seeing it as either critical or important.

Exhibit 16: Energy issues to be addressed in the formation of a new UK-EU relationship (%)

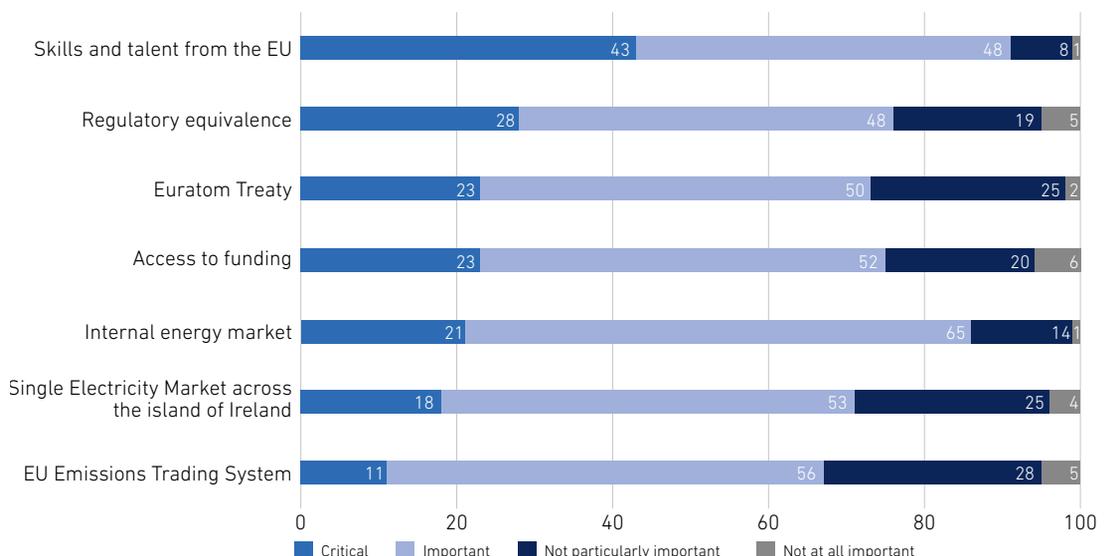
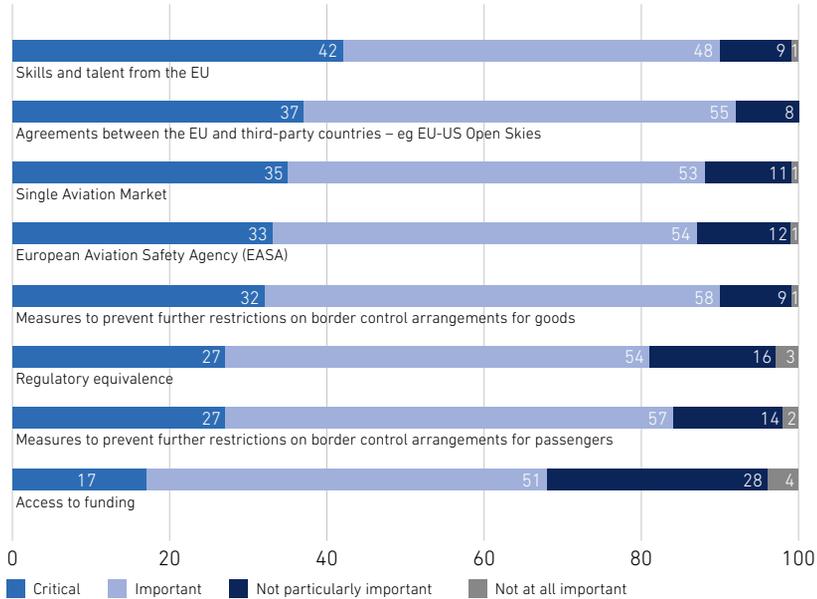
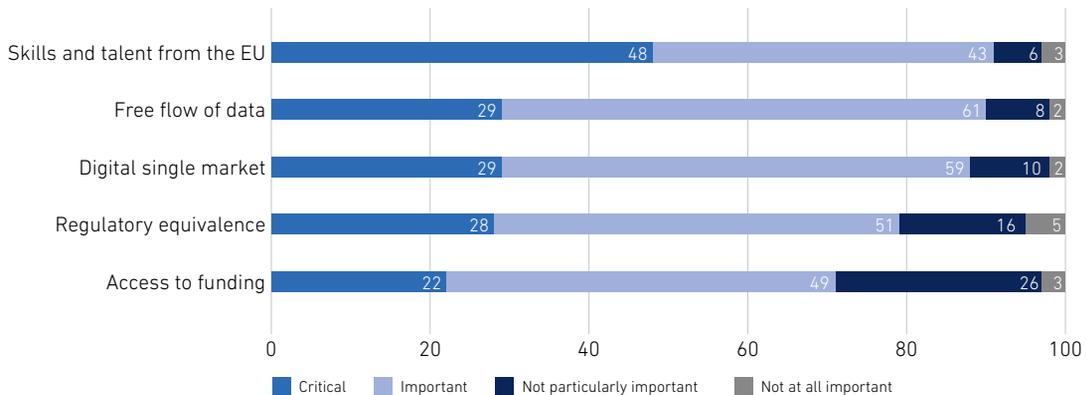


Exhibit 17: Aviation issues to be addressed in the formation of a new UK-EU relationship (%)



In aviation (**Exhibit 17**), 92% of businesses thought that agreements between the EU and third party countries was a critical or important issue to be addressed, beating even access to skills and talent from the EU for overall importance. With much of the UK’s market access beyond the EU currently dependent on membership of the EU – for example with the United States through the EU-US Open Skies agreement – and aviation not forming part of the World Trade Organisation system, it is clear why this is seen as a priority issue.



Exhibit 18: Digital issues to be addressed in the formation of a new UK-EU relationship (%)

With the UK's digital economy accounting for 10% of GDP¹³ – the highest in Europe – it is no surprise that the free flow of data (90%) and the digital single market (88%) are seen as the most important issues to address in forging a new relationship with the EU, behind access to skills and talent from the EU (**Exhibit 18**). To have a thriving tech sector and pioneering digital economy, we need a robust, internationally recognised data protection framework that allows us to trade and process EU data. And businesses are looking for clarity in this complex area so the UK maintains its competitive edge in this field.

Infrastructure funding must not be interrupted by leaving the EU

Currently the UK enjoys access to both the European Investment Bank (EIB) and the European Investment Fund (EIF). In 2016, EIB investments in the UK economy totalled EUR 6.9 billion,¹⁴ with infrastructure projects accounting for nearly half (47%). Survey respondents saw EU funding having greatest importance for the energy sector (68%), followed by roads and digital (both 57% – **Exhibit 19, page 24**). This correlates to the historic breakdown of EIB funding between 2012-2016 which shows energy projects to have secured the most funds at 30%.¹⁵ UK energy projects are currently able to compete for EU funding through programmes such as Horizon 2020 and Projects of Common Interest, which help support critical investments.

Across all sectors there appears to be very little confidence in receiving equivalent funding post-Brexit (**Exhibit 20, page 24**), with least confidence around funding for the roads sector (71% either not confident or not at all confident). With the long-term nature of infrastructure investments, to avoid gaps in funding as the UK leaves the EU, it will be vital to establish alternative funding arrangements and explore continued UK participation in EU programmes and funding schemes where alternatives could not deliver equivalent benefits.

Exhibit 19: Importance of EU funding across infrastructure sectors (%)

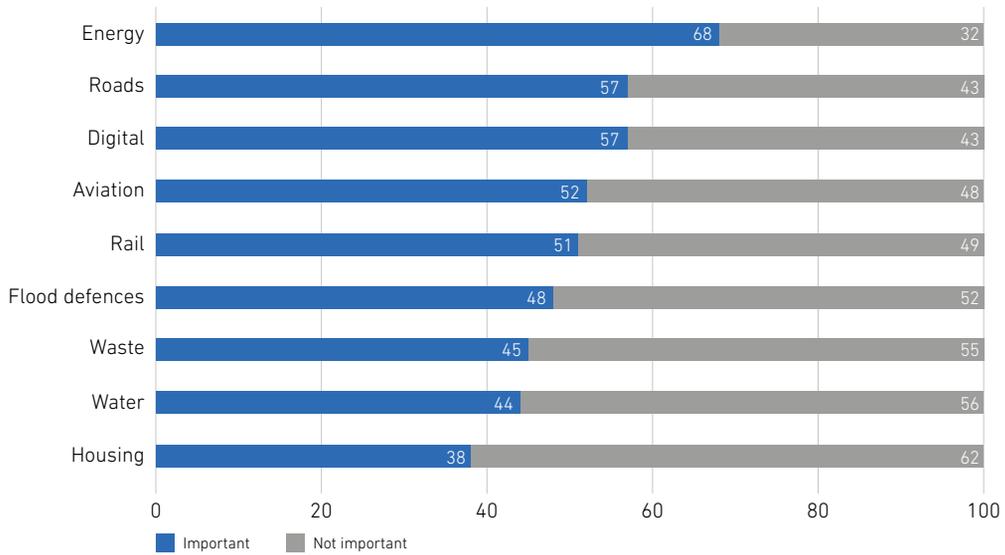
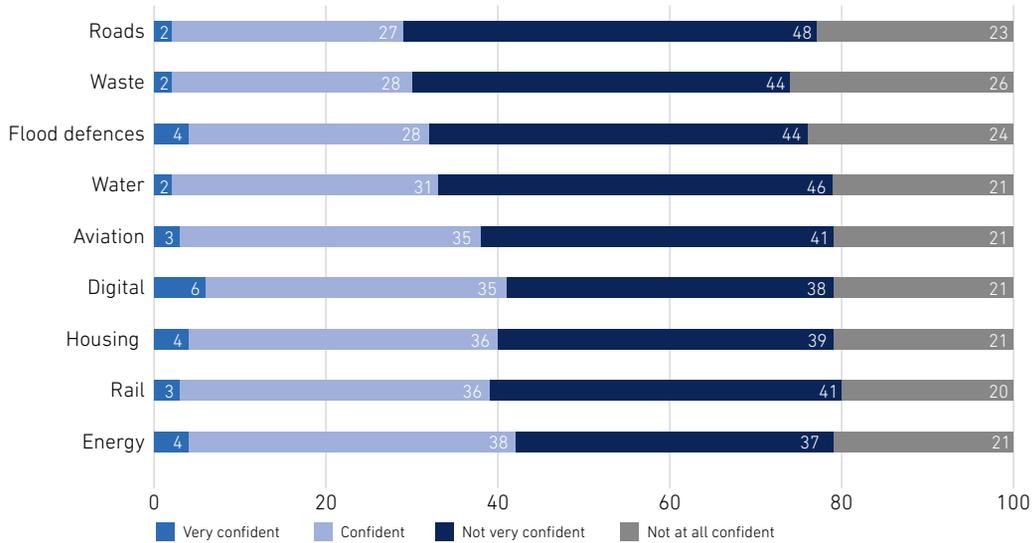


Exhibit 20: Business confidence that infrastructure sectors will continue to receive similar levels of funding post-Brexit (%)



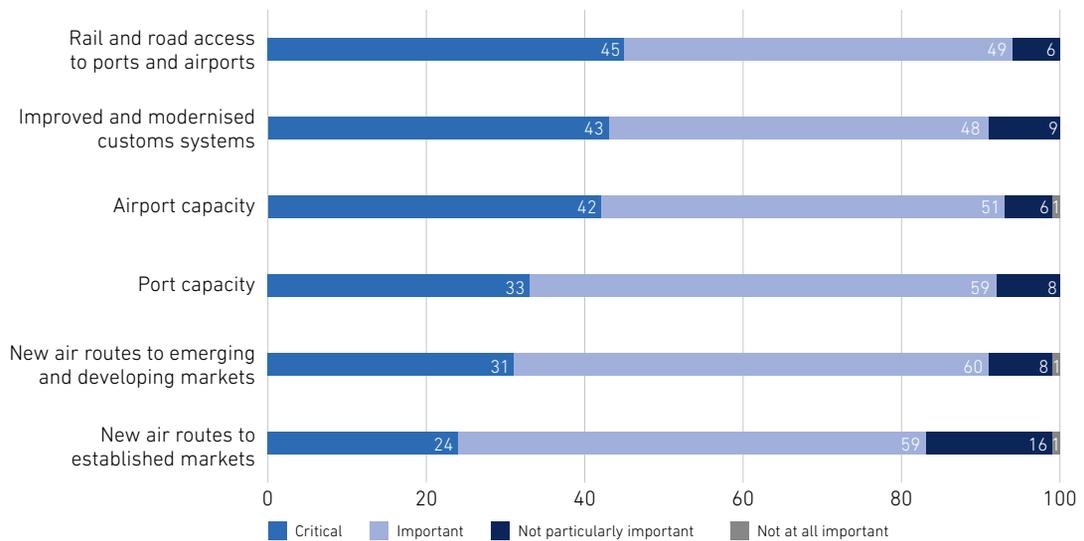
Improving our international gateways is key to unlocking the UK's success as a trading nation

With over half of respondents optimistic about the prospects of new free trade agreements following the UK's exit from the EU, it is crucial that the UK's infrastructure supports its ambition to redefine its place in the global economy as a great free trading nation.

When asked to consider the infrastructure priorities to improve the UK's capacity and capabilities for international trade, road and rail access to ports and airports arose as the most essential issue, with 45% of respondents seeing it as critical (**Exhibit 21**). This highlights the linkages between different modes of transport, and the need to take a holistic approach when considering the role of infrastructure in boosting UK trade. Improved customs systems is the next most critical (43%), suggesting the need for digital customs checks and data-sharing, for example, followed by airport capacity (42%), further highlighting the need to deliver a third runway at Heathrow and ensure the UK's long-term aviation capacity needs are met.

Due to our relationship with Europe, Britain has not had to develop a national trade strategy for decades, so it will be vital to see government working in partnership with business to leverage the expertise of every sector.

Exhibit 21: Infrastructure priorities for improving the UK's capacity and capability for international trade (%)



Infrastructure sectors

When looking across the range of infrastructure sectors, business confidence that infrastructure will get better in the coming years is low for the majority of sectors (**Exhibit 22**). Roads fare the worst, with over two thirds (68%) of businesses not particularly or not at all confident of improvement, followed closely by aviation, flood defences and waste, all with 65% lacking confidence in the outlook for the next five years. Housing – a new addition in the 2017 survey – reveals a similar lack of confidence at 64%. The digital sector, however, continues to buck the trend, with 59% of businesses reporting they are confident in improvements occurring.

When comparing this year’s results to similar questions in previous years, some interesting trends and differences can be seen (**Exhibit 23**). Confidence levels for digital, roads and waste are largely consistent with results for these sectors in last year’s survey, although it should be noted that the results for 2017 and 2016 mark a significant upturn in confidence for digital, and notable downturn in confidence for roads and waste, when compared to the 2015 survey. Year-on-year decreases in confidence are also evident in the rail and flood defences sectors, with a small increase in confidence for the water sector since last year.

The most marked departures from last year’s results can be seen in energy and aviation, where upticks in confidence have led to a balance shift of 30 percentage points and 17 percentage points respectively. For energy, this is perhaps a reflection of just how low confidence was last year, following a period of significant policy uncertainty, while the improvement in confidence is perhaps more understandable in the case of aviation, following last year’s decision to go ahead with expansion at Heathrow.

Exhibit 22: Business confidence in UK infrastructure improvement, 2017 (%)

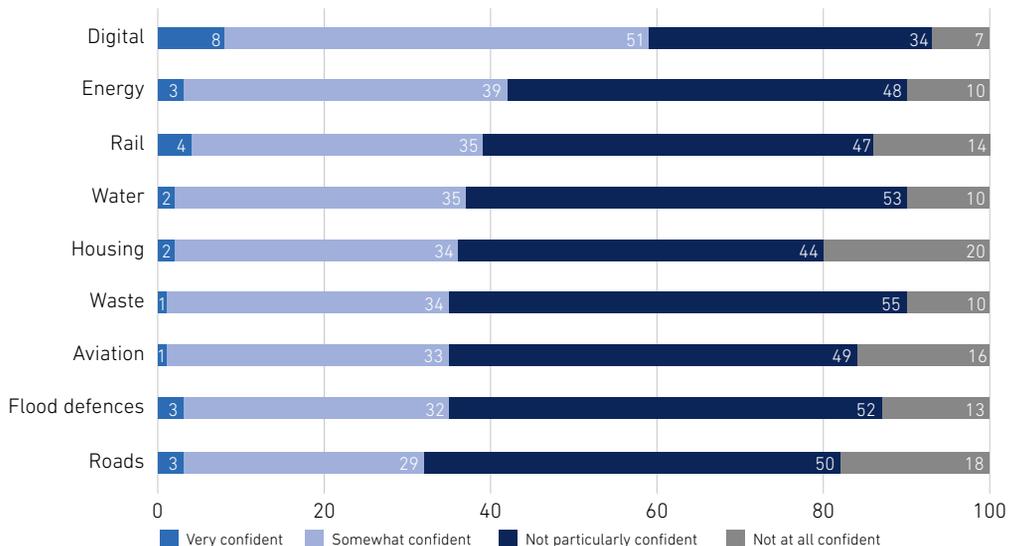
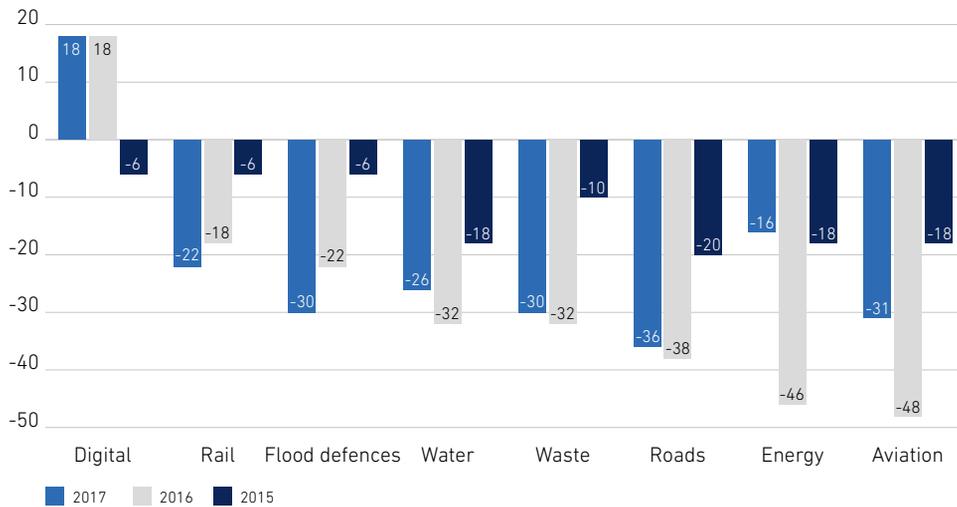
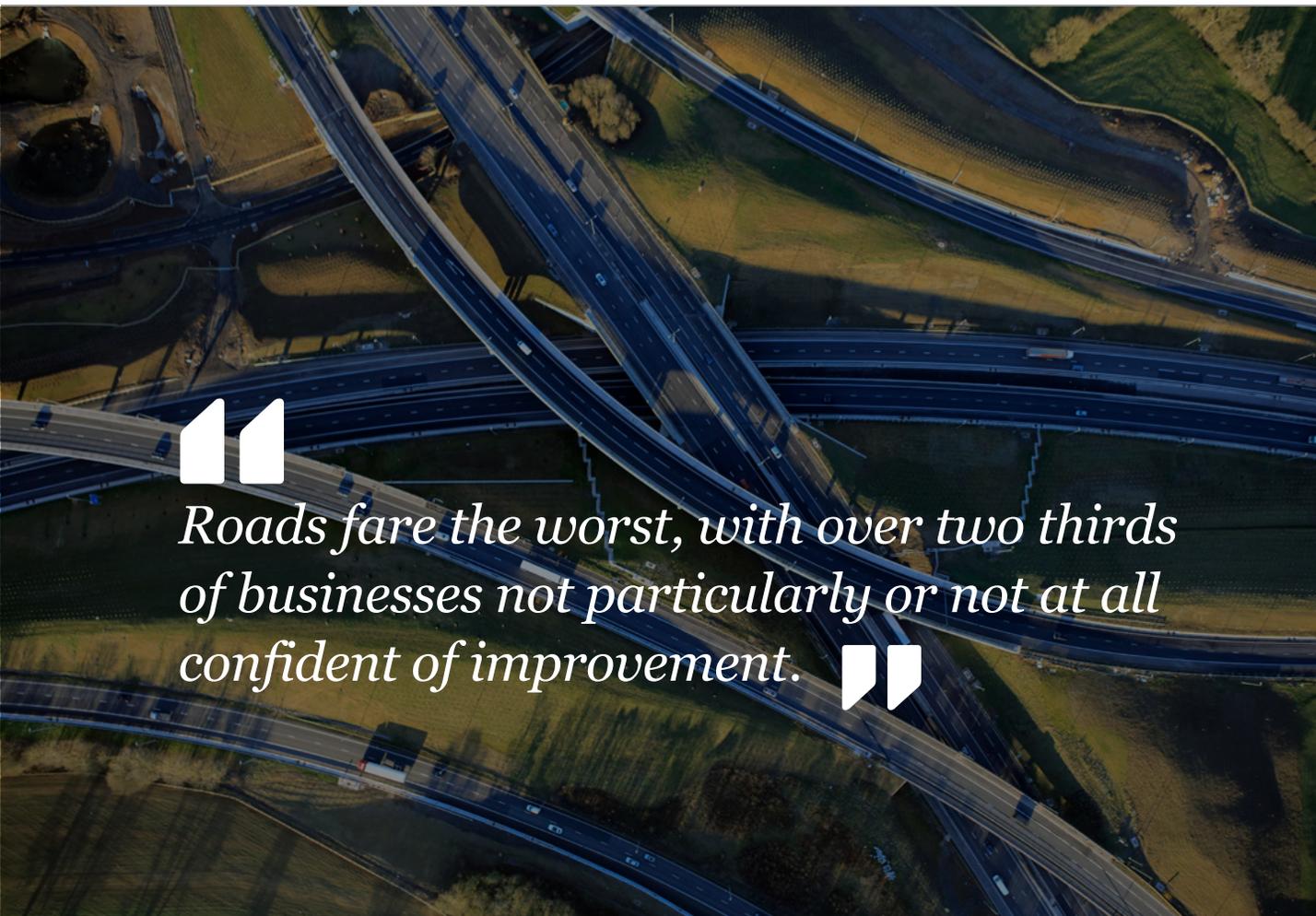


Exhibit 23: Business confidence in infrastructure improvement, 2015-2017 (% balance)



Time series data unavailable for housing as this was a new addition in the 2017 survey



Roads fare the worst, with over two thirds of businesses not particularly or not at all confident of improvement.

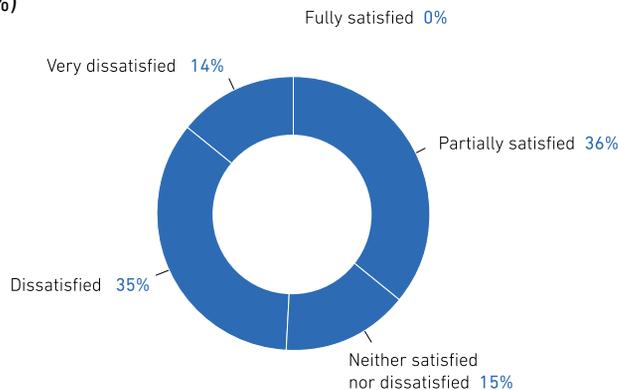


Key stats

- Setting out a post-2020 power sector investment framework is the most critical priority (68%) for this parliament
- Almost half of energy providers are dissatisfied with the delivery and policy environment
- Energy providers are unanimous in seeing the importance of a clear and long-term energy plan, with three quarters (74%) seeing this as critical

A long-term plan is essential to improve the delivery environment for energy providers

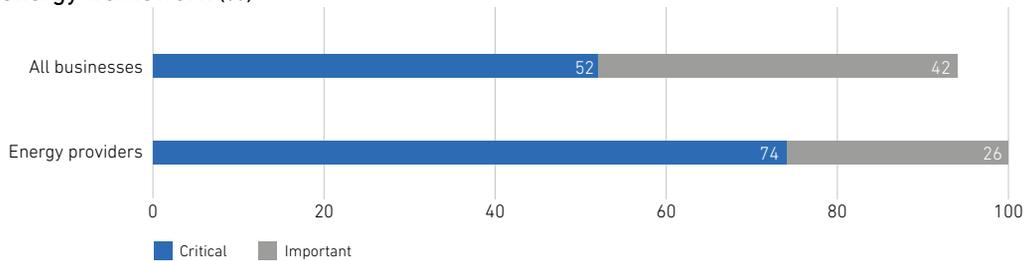
While confidence among business as a whole that energy infrastructure will improve in this parliament is low, but improving (as set out in Exhibit 22), those who identify as energy providers have expressed dissatisfaction with the current delivery and policy environment (**Exhibit 24**). Indeed, almost half (49%) are dissatisfied, with 14% saying they are very dissatisfied. This marks a deterioration from last year's survey, where 42% of energy providers said they were dissatisfied with the delivery environment.

Exhibit 24: Energy providers' satisfaction with the delivery and government policy environment (%)

This is perhaps understandable in the context of the policy uncertainty caused by Brexit, and the subsequent general election delays in key decisions over the past year – whether on carbon pricing or the post-2020 power sector investment framework – and the commitment by the government of major market interventions, such as an energy price cap.

It is clear that business has been looking for long-term certainty and clarity in the energy space, with 100% of energy providers highlighting the need for the government to set out a plan to provide a clear and long-term framework for energy policy (**Exhibit 25**). Indeed, almost three quarters (74%) see this as critical. The recently published – and long-awaited – Clean Growth Strategy¹⁶ is therefore very welcome, providing a clear direction of travel for this sector. It is now crucial that this is clearly joined up with the forthcoming Industrial Strategy White Paper, and followed up by some much needed policy detail, which will help to drive a positive investment and delivery environment.

Exhibit 25: Business and energy provider views on the importance of a clear and long-term energy framework (%)

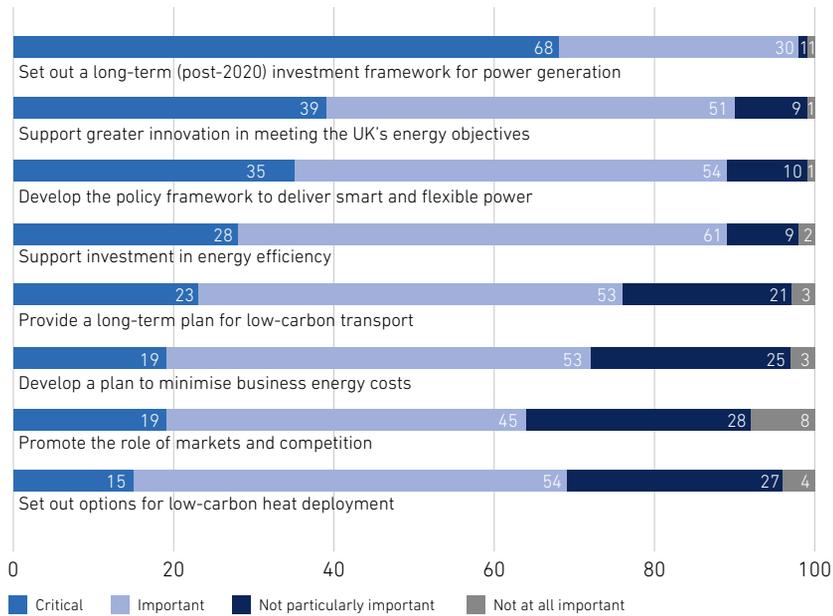


A post-2020 investment framework is the most critical business priority for this parliament

When asked to consider what energy issues the government should have on its agenda for the early years of this parliament, by far the most critical priority for all firms is to set out a post-2020 investment framework for power generation, with over two thirds (68%) citing this as critical (**Exhibit 26, page 30**), increasing to three quarters (76%) for energy providers. The past year certainly saw some landmark moments for power generation, with the decision to go ahead with Hinkley Point C¹⁷ and contracts awarded for 3GW of new offshore wind capacity at record low costs.¹⁸ Firms will also welcome the recent commitment to further capital Contracts for Difference auction in 2019. Ensuring a clear pipeline and framework is important for those looking to invest, as well as energy users, who rely on a secure supply of energy to operate their business



Exhibit 26: Business energy priorities for the early years of this parliament (%)



* Respondents were advised but not restricted to select three critical priorities

Innovation and smart power are also high on the agenda, alongside energy efficiency

This was followed by support for greater innovation in meeting the UK’s energy objectives, which was seen as important for 90% of firms, of which 39% thought it to be critical, and developing the policy framework for smart and flexible power, which over a third (35%) thought to be a critical priority. From smart appliances for homes to small modular reactors and battery storage, new technologies and business models have the potential to play a significant role in a secure, low-carbon and affordable energy system. Further to this, with the National Infrastructure Commission estimating savings of up to £8bn resulting from the smart power revolution,¹⁹ it is no surprise that this is a priority for business. The release over the summer of Ofgem’s Smart Systems and Flexibility Plan²⁰ is therefore a welcome step in the right direction.

Supporting investment in energy efficiency also emerged as a key priority, with 89% of respondents seeing it as important, of which 28% thought it to be critical. Interestingly though, this high level of importance was not matched by the need to develop a plan for minimising energy costs, which was seen as critical or important by 72% of businesses. Digging deeper, however, those sectors that are major energy users understandably saw this as a greater priority, with 80% of manufacturers, for example, seeing it as important, of which 31% saw it as critical. With this in mind, the energy cost review by Professor Dieter Helm will be important for businesses, and should align with the government’s wider energy objectives, such as the Clean Growth Strategy and Industrial Strategy.

Key stats

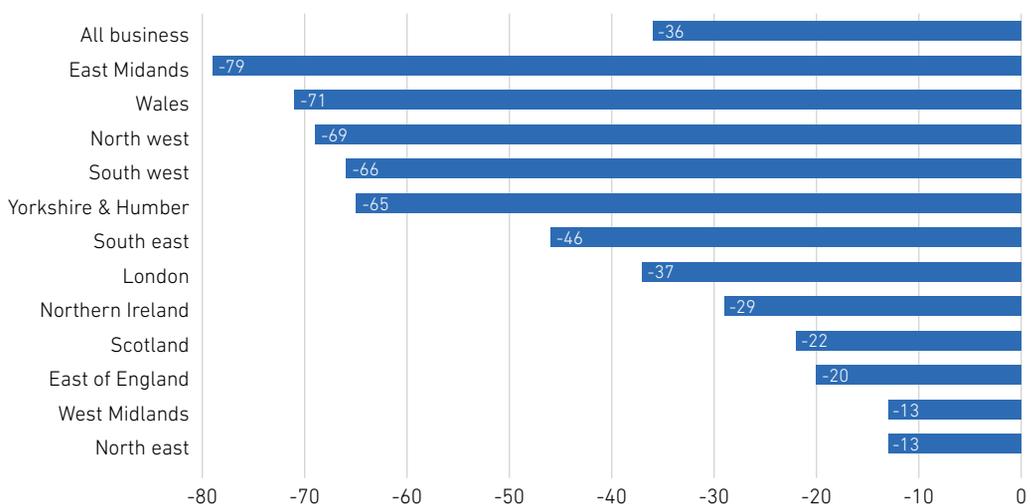
- Roads delivery tops the priority list for this parliament, with 35% of businesses seeing delivering the current Road Investment Strategy (RIS) as critical and 34% seeing delivering improvements to the local road network as critical
- Among all transport providers, rail providers are the least satisfied with the delivery and policy environment, with 61% of rail providers either dissatisfied or very dissatisfied
- 65% of all firms see making progress with delivering a third runway at Heathrow as important, of which a quarter of firms (25%) see it as critical

Significant investment plans have yet to boost confidence in the prospects for road and rail

Record levels of investment are being made in the UK’s transport network through the £15bn Road Investment Strategy²¹ to improve the UK’s Strategic Road Network and the £38bn being invested in rail infrastructure through Control Period 5 (2014-2019).²² This has been enhanced with additional funds going into local roads through the National Productivity Investment Fund, announced in the 2017 spring budget.²³ Yet despite investment being at an historic high, confidence that our roads and rail networks will improve remains stubbornly low – a balance of -36 for roads, the lowest across all sectors, and -22 for rail (Exhibit 23, page 27).

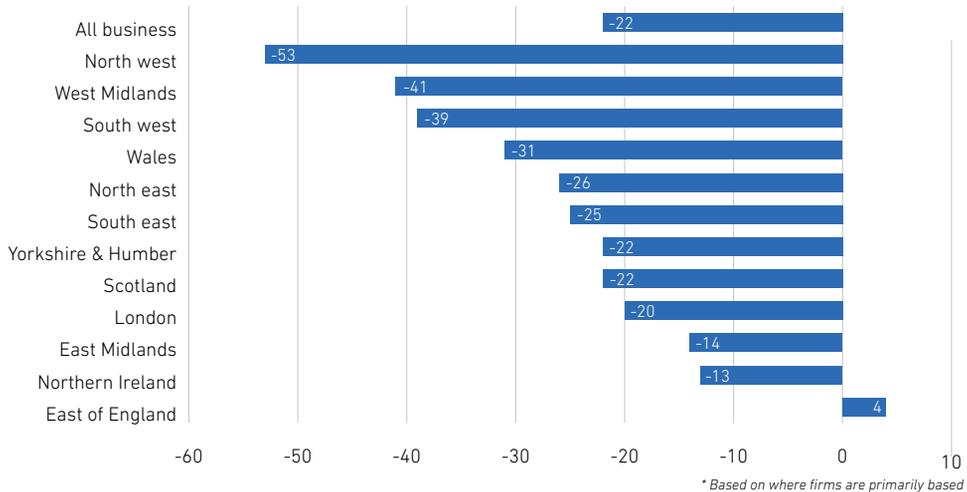
Looking across the regions, confidence in road improvements is lowest in the East Midlands (-79) and highest in the north east and West Midlands, both with a balance of -13% (Exhibit 27). On rail, the north west is by far the least optimistic, with a balance of -52%, while at the other end of the scale, the East of England is the only region to register a positive balance of +4% (Exhibit 28, page 32).

Exhibit 27: Business confidence in improvements to road infrastructure by region (% negative balance)



* Based on where firms are primarily based

Exhibit 28: Business confidence in improvements to rail infrastructure, by region (% balance)

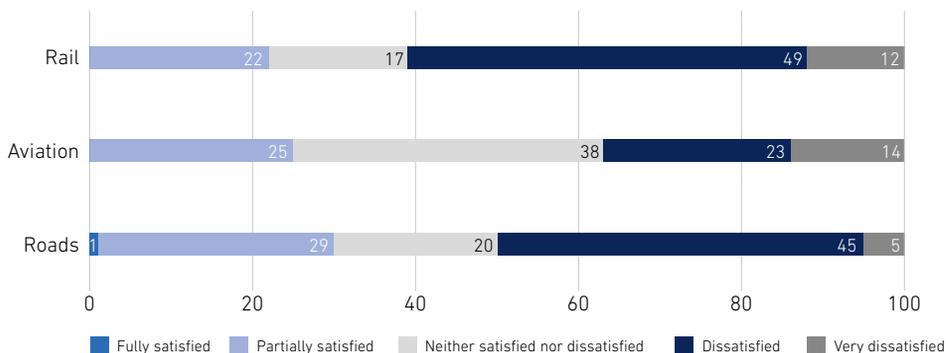


Rail providers are the least satisfied with the delivery and policy environment

When looking specifically at the views of transport providers, there is overall dissatisfaction across the board with the delivery and policy environment (**Exhibit 29**). Rail providers are the least assured, with 61% dissatisfied or very dissatisfied, and less than a quarter (22%) satisfied. This is perhaps unsurprising in the context of the challenges in delivering the current rail investment programme, CP5, where £12bn of renewals and enhancements have been deferred. With initial plans for CP6 (2019-2024) seen as more achievable, providers will be looking for continuing signs that lessons have been learned, alongside seeing reforms to Network Rail's delivery and procurement take effect.

Fifty percent of road providers were dissatisfied with the delivery and policy environment, while for aviation, views were mixed, with 38% of providers neither satisfied nor dissatisfied. With a decision on Heathrow expansion now taken (see page 34), providers will be looking to see progress.

Exhibit 29: Transport providers' satisfaction with the delivery and government policy environment (%)



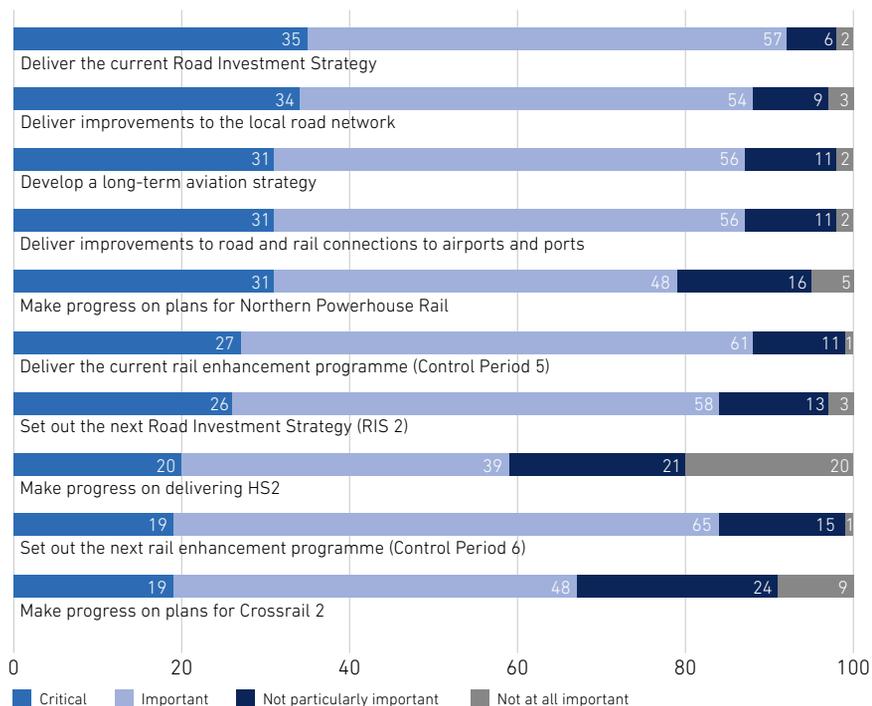
Delivery of current investment programmes is the priority for this parliament, with progress on roads most critical

Taking into account the lack of overall confidence in road improvements and the dissatisfaction of providers, it is perhaps no surprise, therefore, that the delivery of improvements to roads – both national and local – is highest on all businesses' agenda for the early years of this parliament (**Exhibit 30**). Delivering the current Road Investment Strategy (RIS) is seen as the most important priority across all transport issues, with 92% considering it important, of which 35% think it is critical. This was followed closely by the need to deliver improvements to local roads, which was an important priority to 88% of businesses, of which 34% considered it critical.

Last month's announcement of the preferred route for the A303 Stonehenge upgrade²⁴ – a much needed project for businesses in the south west – was positive, and this survey data highlights the need for the government to continue to keep its foot on the pedal when it comes to delivery.

Coming in joint third in terms of critical priorities is the need to make progress on Northern Powerhouse Rail – a project aimed at connecting key northern cities which gained significant attention over the summer – delivering improvements to road and rail connections to ports and airports and developing a long-term aviation strategy, with just under a third (31%) of businesses seeing these as critical. However, delivering the current rail investment programme (CP5) comes higher on the agenda in terms of overall importance, with 88% of respondents seeing this as either critical or important; again, highlighting business' emphasis on delivering the existing pipeline.

Exhibit 30: Business transport priorities for the early years of this parliament (%)



* Respondents were advised but not restricted to select three critical priorities

One year on from the decision to expand Heathrow, business wants to see progress

The government’s long-awaited decision last autumn to build a third runway at Heathrow was welcomed by businesses up and down the country, and most likely provides the backdrop for the boost in confidence among firms that the UK’s aviation infrastructure will improve over the course of this parliament. Indeed, over a third (35%) of businesses are very or somewhat confident of an improvement, compared to 25% from last year’s survey, a marked but not a major improvement.

However, there remains some way to go. While significantly improved, the overall balance of confidence regarding the improvement of aviation infrastructure remains negative (-31). Furthermore, those operating in the aviation sector report middling satisfaction with the delivery and policy environment (**Exhibit 31**). Only a quarter (25%) of aviation providers are satisfied with the environment, with 37% not satisfied and 38% neither satisfied nor dissatisfied. With the National Policy Statement for Heathrow due to be subject to parliamentary scrutiny, it is therefore essential that continued progress is made. This was seen to be important to 65% of all firms, with a quarter seeing progress on the third runway as critical (**Exhibit 32**). As such, it is essential that timetables are stuck to, ensuring construction on Heathrow expansion can begin by 2020, with the third runway operational by 2030.

Exhibit 31: Aviation providers’ satisfaction with delivery and government policy environment (%)

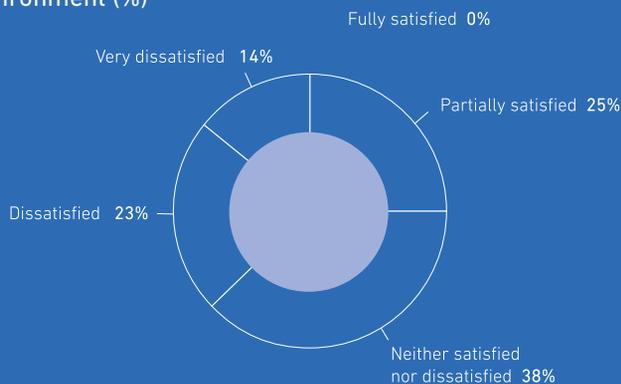
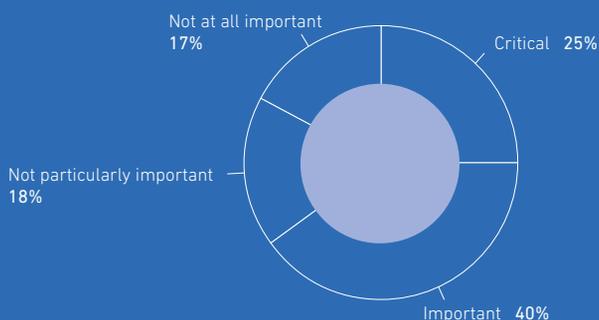


Exhibit 32: Business views on the importance of making progress on delivering a third runway at Heathrow (%)





...construction on Heathrow expansion must begin by 2020, with the third runway operational by 2030.



Snapshot: housing

Key stats

- Firms are on balance not confident about the future prospects of housing (-28%), with only the north east returning a positive balance (+6%) across all regions
- 88% of all respondents were not confident that the government would deliver the proposals in the 2017 Housing White Paper
- Promoting housing as an infrastructure priority was seen as the most critical priority (43%) by business for the early years of this parliament

Words must turn into action on the government’s housing strategy to boost business confidence

The UK’s housing crisis is one of the biggest challenges we face as a country, with a growing number of people locked out of an increasingly unaffordable market. For business, the lack of affordable and high quality housing is a major hurdle to attracting and retaining employees, with an impact on productivity across regions.

For the first time, the CBI/AECOM infrastructure survey asked for respondents’ views on housing, and it is clear that firms are on balance not hopeful of improvement (-28%, **Exhibit 33**). Looking at the sentiment across regions, the north east is the only part of the country that is confident of improvement (+6%), while the north west has the least confidence (-43%); an interesting difference of opinion across the Northern Powerhouse.

Businesses across the country are also concerned that, without concerted action soon, the goals of the government’s 2017 housing white paper will not be achieved. Indeed, only 12% were confident that action would be taken, while 88% of respondents were not confident, of which 43% were not at all confident (**Exhibit 34**). This paints a concerning picture and underlines the need to re-double efforts. It is clear that there is political will to address the housing challenge; there is now a need for a step change in delivery alongside collaboration between government and industry to drive forward meaningful action.

Exhibit 33: Business confidence in improvements to housing infrastructure by region (% balance)

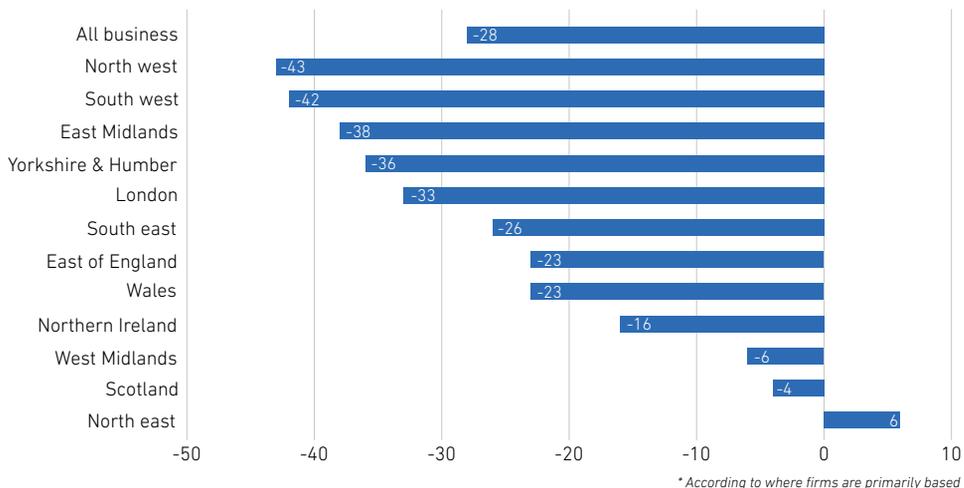
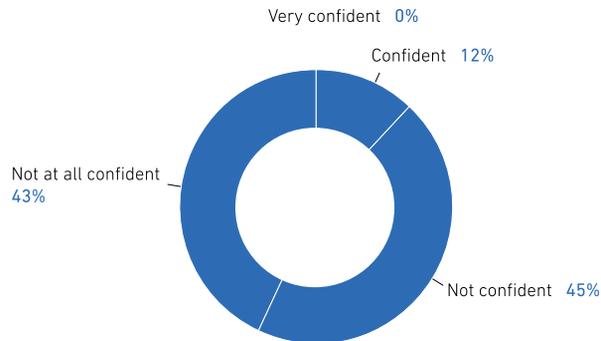


Exhibit 34: Business confidence in the government's ability to deliver proposals in the 2017 Housing White Paper, to build one million homes by 2020 (%)



Business wants to see housing as an infrastructure priority for this parliament...

When considering what housing issues the government should prioritise in the early years of this Parliament, all businesses saw promoting housing as an infrastructure priority as the most critical (43%, **Exhibit 35, page 38**). This echoes the CBI's 2016 housing report *No place like home*,²⁵ which highlighted the need for an integrated approach which links up housing needs with local and regional infrastructure needs and public services, critical to building communities where people want to live, driving regional growth and boosting productivity. To this end, last year's announcement of a housing infrastructure fund was very welcome.

This was followed closely by the need to deliver more affordable homes, which was seen as critical by 42% of businesses. With over one million people on the waiting list for council homes,²⁶ it is clear that the demand for affordable housing is high, yet, like many other tenures, the development of new affordable homes has been on the decline. The prime minister's recent commitment to boost the affordable housing budget by £2bn was therefore welcome.²⁷ It is clear that there is a strong business desire to see a boost to this part of the market, whether through housing associations or social housing provided by local authorities.

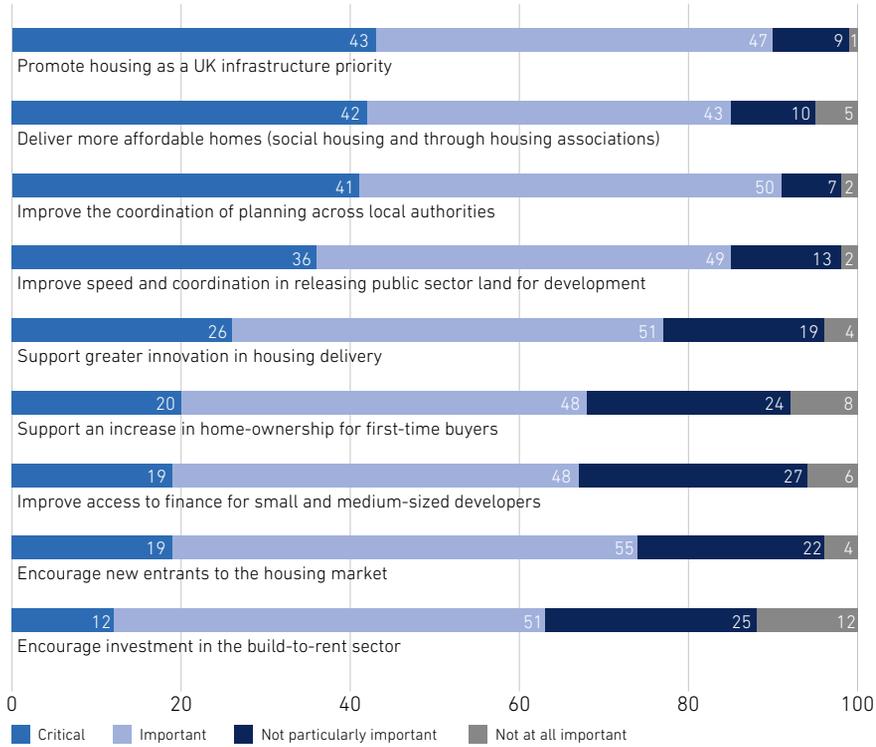
...alongside improvements to the coordination of planning and public sector land release

Other key business priorities for this parliament are to improve the coordination of planning across local authorities, which is seen as critical by 41% of firms, and improve the speed and coordination in releasing public sector land, which over a third (36%) of businesses believe to be critical. Both issues are long-standing challenges in the housing sector, and while considerable progress has been made in tackling them in recent years, the government must keep its foot on the accelerator.

Supporting greater innovation in housing was a middling priority, with 26% seeing it as critical and over half (51%) seeing it as important. With innovative practices, such as modular housing,²⁸ becoming increasingly prevalent in the market, this is perhaps an area to watch for the future.

Section 4: Infrastructure sectors

Exhibit 35: Business housing priorities for the early years of this parliament (%)



* Respondents were advised but not restricted to select three critical priorities



Key stats

- Business views on future improvements to digital infrastructure are on balance positive (+14) , though regional variation is high
- 67% of respondents identified faster and more reliable connections as their most critical business priority
- Almost all businesses (98%) believe that strengthening Britain's cyber resilience is vital
- There are concerns about the UK's approach to cyber security with under a third (32%) of businesses feeling confident in the current strategy

There is a significant digital divergence between businesses across the country

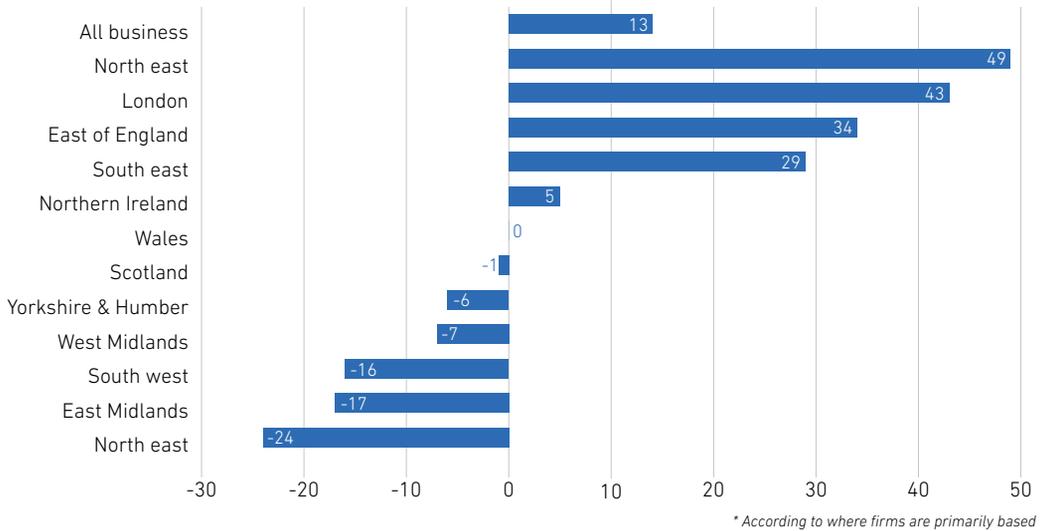
In general, the foundations of the UK's digital economy are strong. When it comes to superfast broadband coverage, for example, the UK outperforms most EU and OECD countries.²¹ The growth in industries that depend on the digital economy, along with action from government on cyber security (see below) helps to explain why overall levels of confidence have increased in subsequent CBI infrastructure surveys compared to other parts of the economy.

Businesses' outlook for improvements in the UK's digital infrastructure remain, on balance, positive (+18%). However, this is slightly down from last year's survey, when a balance of +18% of companies said they expected digital infrastructure would get better over the course of the parliament.

But there has been a shift at the regional level since last year.

This year, businesses in the north west (-24) remain the most pessimistic. However, a number of other regions are now more negative with their expectations (**Exhibit 36, page 40**). In contrast, businesses in the north east and the greater south east are much more positive about improvements in digital infrastructure, especially those in London (+43).

Exhibit 36: Business views on improvements to digital infrastructure in this parliament, % balance by region

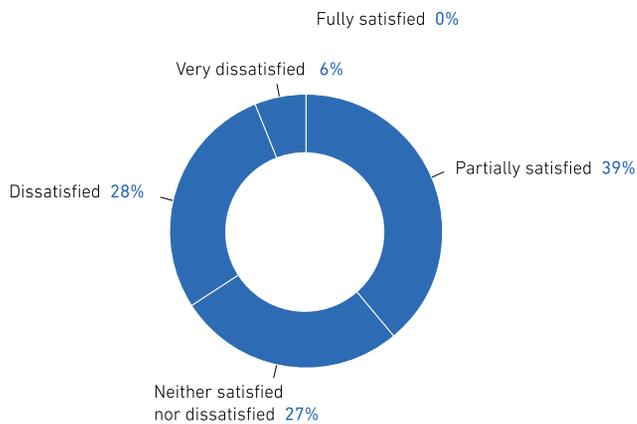


Digital providers are, on balance, satisfied with their operating environment

In this year’s survey a balance of +5% of digital infrastructure providers said they were satisfied with the operating landscape, compared with a negative balance (-23%) last year (Exhibit 37). The change is largely a result in a shift of the number of businesses who said they were partly satisfied with policy, which has risen from 15% last year to 39% this year.

This reflects a number of changes in the policy environment over the course of the last twelve months, including the government’s commitment to full fibre broadband and the £400m promise to support a new Digital Infrastructure Investment Fund.

Exhibit 37: Digital infrastructure providers’ satisfaction with the delivery and government policy environment



Improving speed and connectivity is the most business-critical priority

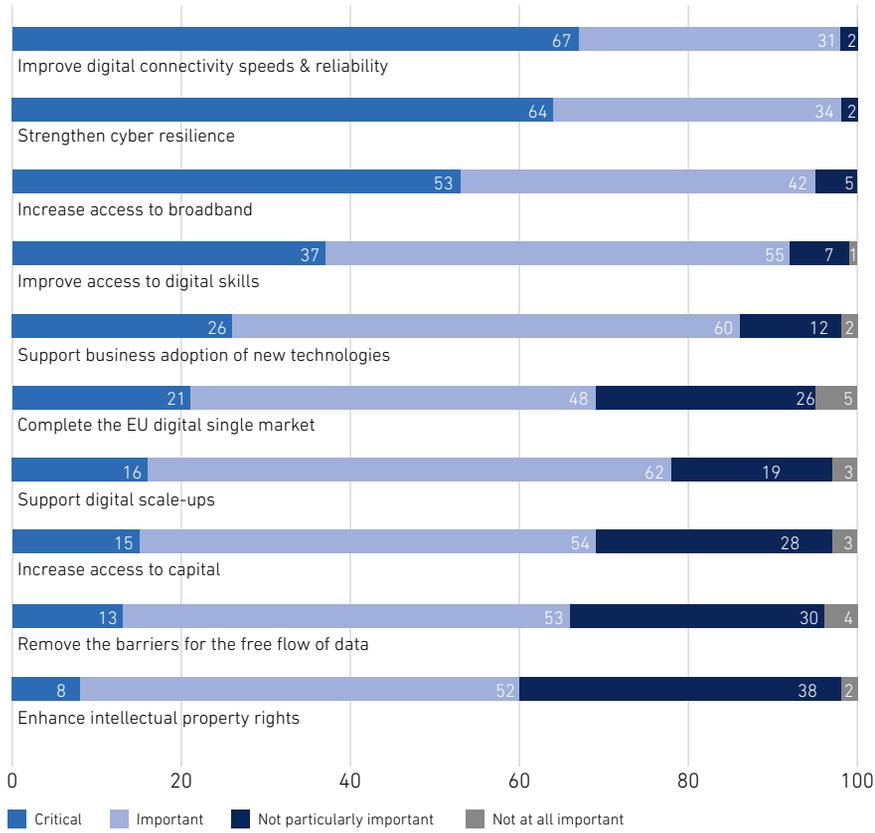
Improving the speed and reliability with which users can connect to the digital economy is business critical (**Exhibit 38, page 42**). When asked about the most important priorities for the early years of this parliament, almost all businesses (98%) said this was important and over two thirds (67%) identified this as the most critical priority.

However, strengthening cyber resilience comes a close second. Once again, 98% of businesses said it was important, of which 64% of businesses described it as critical. The risk of cyber-attacks to the UK's digital infrastructure is a major issue for business and the public. In just one, prominent example, earlier this year the WannaCry²² ransomware attacks temporarily crippled critical public services such as the NHS and large corporations in over 100 countries. The National Cyber Security Strategy²³ was published last November and sets out a five-year plan to defend and deter against cyber-attacks whilst developing greater resilience at home. The survey results suggest a relentless focus is needed on this strategy. Almost half (47%) of all business respondents were not confident in the UK's cyber security strategy with a further 21% saying they were not at all confident. Just under a third (32%) were either confident or very confident (**Exhibit 39, page 42**)

The recent launch of a government consultation on the Network and Information Systems Initiative²⁴ is a welcome chance for businesses to provide their input to the development of the UK's cyber security strategy but more will clearly need to be done to provide reassurance that the foundations of the digital economy are secure.

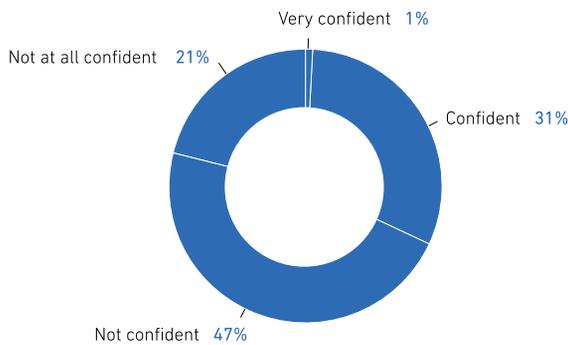


Exhibit 38: Business priorities for digital infrastructure in the early years of this parliament (%)



* Respondents were advised but not restricted to select three critical priorities

Exhibit 39: Business confidence in the UK's cyber security strategy (%)





Delivering infrastructure commitments today will unlock prosperity in the future, but this will only be possible if business and government stand shoulder to shoulder. ”



Annexe

Respondents

The 2017 CBI/AECOM infrastructure survey was conducted over an eight-week period, between 29 June and 3 August 2017. Useable responses were received from 727 participants. Participants included investors, providers and users of UK infrastructure from across and outside CBI membership. Approximately 34% of respondents were identified primarily as a provider of infrastructure.

The respondents were largely senior executives of their respective companies: 22% were CEOs with a further 38% managing directors or directors. Importantly, the survey captures business opinion from all sizes of businesses: while larger firms employing 500-4,999 employees constituted 49% of respondents, SMEs with 1-249 employees represented 40%.

Methodology

In the analysis of results, responses were weighted according to the sectoral contribution to gross value added based on the latest available Office for National Statistics estimates. **Exhibits 40, 41, and 42** respectively show the breakdown of respondents by sector, region and infrastructure provider sectors.

Where indicated results were presented 'on balance', calculated by taking the difference between positive and negative responses, in relation to the question asked, Exhibits 4, 14, 23, 27, 28, 33 and 36. For those questions which ask for respondents to identify critical infrastructure priorities, respondents were advised but not restricted to select three critical priorities, Exhibits 7, 26, 30, 35 and 38. Where questions included a 'don't know' option, these were excluded from the final results.

As noted, for the first time, the CBI/AECOM infrastructure survey commissioned YouGov to conduct a public poll. For the public polling, all figures, unless otherwise stated, are from YouGov Plc. The total sample size was 1,668 adults. Fieldwork was undertaken between 21 and 23 July 2017. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

Exhibit 40: Respondent breakdown by sector (%)

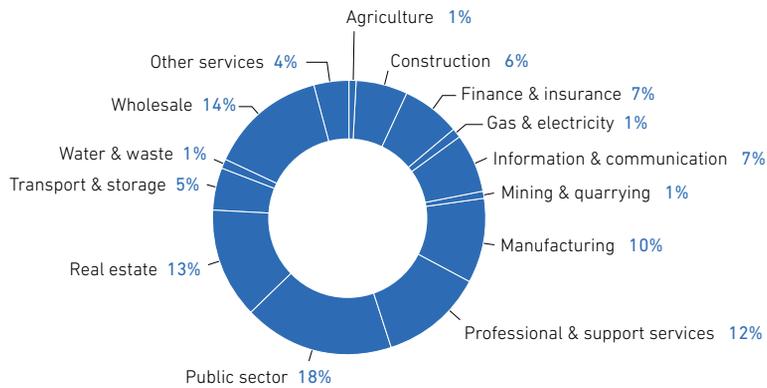


Exhibit 41: Respondent breakdown by region (%)

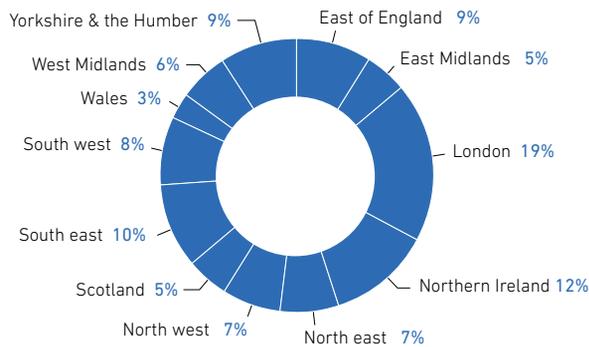
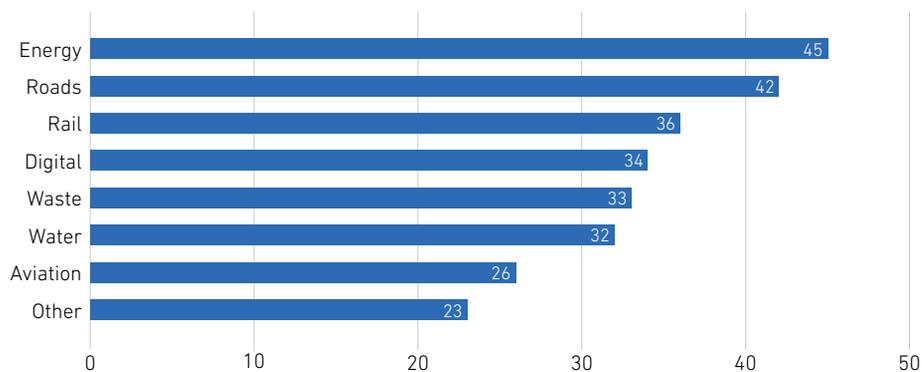


Exhibit 42: Respondent breakdown by infrastructure provider sectors (%)



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- 2 *Thinking globally, delivering locally*, CBI/AECOM infrastructure survey 2016
- 3 *Building our industrial strategy*, Department for Business, Energy & Industrial Strategy, January 2017
- 4 *Global competitiveness report*, WEF, September 2017
- 5 *Helping the UK thrive: CBI/Pearson education & Skills survey*, July 2017
- 6 ONS labour market research as quoted by CITB, August 2013
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October 2017

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