The nature of politics in the UK has often been a cause of frustration to investors in infrastructure. Battles between government departments over priorities, the habit of the Treasury of keeping ministers guessing on allocation of funding towards their projects until the very last minute, and the ability of backbench MPs to disrupt plans requires investors to develop a thick skin.

This is even more the case with current politics, where the outcome of next year’s general election is unpredictable and political rhetoric takes pride of place before reality, all against the backdrop of looming constitutional changes and deeper austerity. However, a look beyond the everyday cut-and-thrust of politics reveals an emerging cross-party consensus around the infrastructure the country needs to remain competitive. For this reason, political risk to infrastructure investment in the UK is probably much lower than most people might imagine.

**RISK AND OPPORTUNITY**

Let’s start with the risks that UK politics presents investors into infrastructure, before turning towards the opportunities.

Next year’s general election is unpredictable, but leaning towards a Labour victory of sorts. Currently Labour is on average 3 percent ahead of the Conservatives in the polls, barring a recent post-party conference boost for the latter. If an election were held tomorrow, Labour would pick up a 30-odd seat majority. Although it’s unlikely Labour can sustain their lead heading into a ferocious campaign, the electoral system in the UK favours Labour because a disproportionate number of Members of Parliament (MPs) are returned from Labour’s traditional heartland of cities, Scotland and Wales.

This bias towards Labour is not the only factor that counts against the Conservatives. Recent polls have suggested that Labour are 12 percent ahead of the Conservatives in the top 40 target seats, and that the UK Independence Party (UKIP), which is currently at an impressive 17 percent in the polls, is taking more votes from the Conservatives than Labour. For these reasons, investors should expect either a slim Labour majority, a Labour-Liberal Democrat coalition or, less likely, another Conservative-Liberal Democrat coalition.

The knife-edge nature of next year’s election means both the main parties are pursuing a core vote strategy, which presents risks to investors. While the Conservatives are seen as stronger than the opposition on the economy, Labour’s campaign on the increased cost of living is resonating with voters. The risk to investors
here is Labour’s claim that big business is to blame for the rising cost of living, which has natural appeal to Labour’s traditional core voter base.

Energy companies have been targeted with a price freeze for the first 18 months of a future Labour government, and other utilities businesses and transport operators have also been singled out. One Labour figure told me recently that the party was very suspicious of water companies, for example, which have been lobbying all politicians to allow them to increase bills to fund infrastructure upgrades, while at the same time declaring large dividends. In addition, Labour’s shadow transport team have been asking many robust questions to rail franchise companies and their supply chain (e.g. ROSCOs and rolling stock manufacturers) about their business models and profitability.

**PRO-BUSINESS**

The Conservatives, on the other hand, are notably more pro-business than Labour, which is on the face of it better for investors. However, the threat from UKIP to their core voter base has required the party to pledge an in-out referendum on the European Union in 2017, which is also destabilising to the investment climate. For this reason the UK’s credit rating risks a downgrade if the Conservatives are re-elected on the basis that the Conservative referendum pledge might lead the UK out of Europe. UKIP is having an impact on Conservative policies in other areas, for example policy towards some renewables technologies.

The narrow nature of the polls also points towards a weak government after 2015. Quite apart from the risks presented by its anti-business agenda, a slim Labour majority might mean factionalism within the party gets in the way of clear decision-making, because it is much harder to govern with a small majority, especially at a time when big and controversial decisions need to be taken on deficit reduction in the next Parliament. Another coalition, on the other hand, is unlikely to be as harmonious or stable as the current coalition. This makes somewhat less likely the possibility of a stable and clear decision-making environment.

However, I would urge investors to delve a little bit deeper at each party’s policymaking process relating to infrastructure. In doing so it is possible to see a more stable policy environment on infrastructure, beneath the effervescence of everyday politics and election campaigning. I would give three reasons for this: the parties share the same instincts on infrastructure priorities, and how to achieve them; there appears to be a behind-closed-doors consensus on the big decisions that need to be taken; and it is unlikely that between 2015 to 2020 we will see future cuts to capital expenditure of the scale we saw in 2010.

“The knife-edge nature of next year’s election means both the main parties are pursuing a core vote strategy, which presents risks to investors”

Firstly, Conservative and Labour party policy on infrastructure are influenced by two relatively non-partisan individuals who share the same instincts on priorities. Lord Deighton, as the government’s infrastructure minister, is not a dyed-in-the-wool party politician and is said to want to take politics out of infrastructure in order to create the right conditions for long-term investment. For example, he has kicked the government’s long-term infrastructure plan into shape and has prioritised projects for investment within that plan.

Similar sentiments are voiced by Sir John Armitt, former chair of the Olympic Delivery Authority at the same time Lord Deighton was chief executive of LOCOG, and they apparently still talk to each other on a regular basis. Sir John has been closely advising Shadow Chancellor Ed Balls on infrastructure. He wants a long-term commitment to infrastructure that transcends the electoral cycle. Labour has already accepted his recommendation to set up a National Infrastructure Commission, to end the “chronic short termism” of infrastructure policy.

**CONSENSUS**

Secondly, there is also a cross-party consensus on the big decisions on infrastructure that need to be taken. Having gone from an ambivalent position last year, for example, Labour are now supportive of High Speed Two (HS2). Both Labour and the Conservative leadership are said, privately, to be behind Heathrow expansion and Crossrail 2. Both parties also see a central role for government to co-ordinate and fund essential transport, energy and social infrastructure, around new housing developments, in order to help lever in additional private sector investment in housing.

Finally, on infrastructure spending, after cutting capital expenditure too quickly in 2010, in the last spending round George Osborne pledged an extra £3 billion per year on infrastructure over the course of the next parliament – so an additional £18 billion by 2020. Ed Balls would probably go even further, as he has not ruled out additional capital expenditure under a Labour government after the 2015/16 spending round.

Both parties appear to be heeding calls from the International Monetary Fund (IMF) to use targeted infrastructure spending as a means to boost the recovery, so infrastructure investment is likely to increase in comparison to levels seen under this Parliament.

It would plainly be ludicrous to suggest that the next year or two does not carry political risk to the infrastructure investor. However, for those investors with the patience and expertise to look behind the rhetoric, a more stable policy environment can be seen.