BUDGET PREVIEW

Industry let down as plans fail to get off ground

Infrastructure

Many projects are stuck on the drawing board or may never happen, write **Gill Plimmer** and **Jim Pickard**

George Osborne will tell the House of Commons today that he has secured an extra £2.5bn for housing and other infrastructure projects but, outside Westminster, the chancellor's words may receive a far from rapturous reception.

Industry has been repeatedly disappointed by the coalition's plans to accelerate billions of pounds of investment in road, energy, homes, schools, housing and waste projects as a means of boosting the economy.

In its first National Infrastructure Plan in the autumn of 2010, the Treasury predicted it could attract £200bn of infrastructure investment over the life of the current parliament, promising: "We will help make that happen." But the government's slow progress in attracting private sector investment makes that figure look too optimistic.

In the past year infrastructure spending by the public and private sector has gone backwards, falling by 12 per cent year on year, according to ONS figures. Road construction fell 44 per cent during that period.

A second NIP in late 2011 saw the Treasury publish a shopping list of 500 much-needed projects. Two years on, many are still on the drawing board or, in the case of an £11.5bn deep underground nuclear waste store, may never happen.

Noble Francis, director of the Construction Products Association, a trade body, said: "The construction industry doesn't need more announcements; it needs government to do what it said it would."

New capital spending to be announced in the Budget is expected to include a large allocation for housing, a political priority for the coalition.

Mr Osborne is expected to unveil support for housebuilders, first-time buyers and housebuyers more generally. "Right-to-buy" discounts for council tenants who wish to buy their homes are set to be extended from £75,000 to £100,000, and ministers are expected to unveil a mortgage guarantee scheme for homebuyers.

Ministers have offered investors £10bn of lending guarantees in an attempt to expand the private rented sector and build new affordable homes. But the chancellor may find it hard to shrug off the belief that previous property initiatives, such as land auctions and the release of public sector land, have been a relative flop. Total housing starts in 2012 were 11 per cent lower than the previous year, although completions were slightly up. Public sector housing starts fell even further, by 22 per cent.

Analysts say much of the problem is that the government is relying on private investment to deliver infrastructure projects that previously would have been backed by the state.

For example, the future outlook for social housing construction relies on government funding being replaced by private investment. The autumn spending review halved capital grants from the government, and banks have withdrawn lending to the sector, forcing housing associations to turn to the bond markets.

Although the chancellor announced in his 2011 Autumn Statement that pension funds were expected to invest £20bn in infrastructure projects, the National Association of Pension Funds says they have raised less than £1bn so far.

There is also hope that foreign investors could step in to fund new projects. The Financial Times revealed last week that the government has begun talks with the Qatari government over a potential £10bn infrastructure fund.

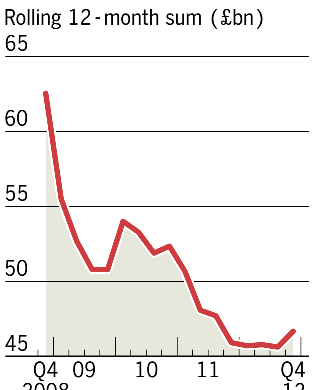
In the meantime, a plan to use Treasury finance to underwrite infrastructure projects with £40bn government guarantees has delivered just two projects, and the promise of a new nuclear programme is still hanging in the balance, with EDF and the energy department as yet unable to reach an agreement for subsidies for planned reactors at Hinkley Point.

A decision on building airport capacity has been deferred and, despite the promise of a school refurbishment scheme a year ago, only a few projects so far have the private funding needed to go ahead.

Richard Threlfall, head of infrastructure at KPMG, said that the government appeared to be keen to be "tough on growth and the causes of growth". He added that there was real pressure for the chancellor to deliver more than just empty promises in today's Budget. "The government is absolutely pinned to the wall now; they have to start delivering," he said.

UK new infrastructure orders

Rolling 12-month sum (£bn)



Source: ONS

The chancellor is expected to unveil support for housebuilders but some analysts believe that previous property initiatives have been a relative flop Newscast

Schemes earmarked to boost flagging growth

● **HOUSING**
The government announced last summer that it would provide the backstop for lending to builders of social housing by guaranteeing up to £10bn of future bond issuance. More details are expected in today's Budget.

Last September ministers promised an extra £300m to deliver 15,000 affordable homes, but this was a fraction of the deep cuts to capital grants for social housing in the last comprehensive spending review.

Two shared equity schemes, NewBuy and FirstBuy, have helped boost the housebuilding industry and now account for a quarter of new-build sales.

● **GUARANTEES**
The Treasury has offered to guarantee up to £40bn of schemes in energy, transport, waste and other infrastructure but so far only two projects have been announced; a guarantee for Drax to convert Britain's largest coal-fired power station partially into biomass, and a guarantee to extend the Underground's Northern line to Battersea to support regeneration.

The Mersey Gateway toll bridge could be next in line for government support but plans to guarantee Crossrail rolling stock were dropped after Transport for London chose to fund the scheme publicly.

● **NUCLEAR**
The government wants some 16 gigawatts of new nuclear capacity built by 2025, but progress has been slow. EDF Energy won planning consent yesterday for two new reactors at Hinkley Point, Somerset, but is still in talks with the government over the guaranteed "strike price" for electricity generated by the new plant.

Until a price is agreed, EDF will not go ahead with its construction.

● **ROADS**
In December the Treasury pledged £1bn towards schemes to improve the road network but more ambitious attempts to bring billions of private money are deadlocked. David Cameron proposed the radical idea of selling off trunk roads and motorways on long leases a year ago but a consultation "green paper" will not be published until the summer.

Jim Pickard and Guy Chazan

Energy

Green light for £14bn nuclear power station at Hinkley

The government gave the go-ahead yesterday to one of Britain's largest infrastructure projects, granting EDF Energy consent to construct the country's first new nuclear power plant in a generation, **writes Guy Chazan**.

Estimated to cost £14bn, the two reactors at Hinkley Point C in Somerset will be more expensive than the London Olympics in 2012. When completed, the plant will produce 7 per cent of the UK's electricity, or enough for 5m homes.

Ed Davey, the energy and climate change secretary, told MPs he had approved a development consent order to allow construction.

The decision follows three years of consultation by EDF with local communities and a year-long examination by the UK Planning Inspectorate.

Mr Davey called it an "important milestone" in Britain's efforts to remove carbon from its economy and said nuclear power would play a "critical role" in combating climate change.

The building consent is the last regulatory hurdle EDF had to clear to proceed with the station, which could usher in a nuclear renaissance in the UK.

But EDF still has to make a final investment decision on whether to go ahead with the project. That depends on the long-term guaranteed price it is able to obtain from the government for electricity generated at Hinkley. Mr Davey told parliament he expected negotiations on the "strike price" to be concluded shortly.

EDF submitted 55,000 pages of detailed evidence to planning inspectors, held more than 100 public meetings and exhibitions and gave individual responses to 33,000 comments from the public, the company said.

The government sees "new nuclear" as central to meeting ambitious carbon reduction targets as well as keeping the lights on.

By 2025 more than 40 per cent of the older power stations are expected to close. At the same time indigenous production of oil and gas is declining fast.

The Unite union welcomed the government decision, saying the project would be a "massive boost for jobs".

"Construction at Hinkley Point C will create thousands of skilled construction jobs for the next five years and around 800 jobs in the operation of the power station over the next 60 years," said Kevin Coyne, Unite's national officer for energy.

But there was criticism from environmentalists. "Hinkley C fails every test – economic, consumer, environmental and arguably legal," said John Sauven, executive director of Greenpeace, the campaign group.

"It will lock a generation of consumers into higher energy bills, via a strike price that is expected to be double the current price of electricity, and it will distort energy policy by displacing newer, cleaner, cheaper technologies."

Pledge to offer extra childcare funds

Benefits system

By Elizabeth Rigby, Deputy Political Editor

Wealthy working parents who lost their child benefit in January were promised an extra slug of cash yesterday as the Conservatives sought to reclaim the middle-class vote with the promise of more money for childcare.

David Cameron hailed the £1.5bn scheme as one of the "biggest measures ever introduced to help parents with childcare costs" as the prime minister announced plans to offer parents up to £1,200 a year per child towards the cost of nursery or nanny fees.

The latest system will come into force in the autumn of 2015 and will be open to 2.5m families, five times the number tapping into the current scheme. Both parents must work to qualify for the new scheme, although families with only one working parent will keep access to the existing voucher plan.

The flat rate scheme means all families with two children – bar those where a parent earns over £150,000 a year – will receive £2,400.

That will give a dual income couple on the higher tax rate an extra £1,154 a year compared with the current voucher system, while a couple on the basic tax rate will get £534 more.

The extra income will go some way to ameliorating the loss of child benefit for families where one parent earns more than £60,000 a year.

Many Tory MPs expressed delight with the scheme, which they said would play well in their constituencies, where many voters were still feeling sore about losing child benefit.

"My understanding was that it was meant to act as some recompense to those families," said one Tory backbencher.

A representative from the childcare sector who was privy to talks on the proposals said: "Child benefit has come into it. They were very comfortable with the fact they were distributing wealth up the income spectrum."

But the extra support for dual working parents led to calls from some more traditional Tory quarters to also offer tax breaks for married couples. Philip Davies, MP for Shipley, said the childcare boost should be matched with a transferable tax allowance for married couples where mothers do not work.

Elizabeth Truss, education minister, said the new scheme was not about favouring one group of parents over another.

"This is about how do we give parents a choice and at the moment a lot of parents don't get a choice because childcare is so expensive," she said.

However, the government faced criticism for not offering more immediate help for families struggling to cope with childcare costs on top of rising food, fuel and heating bills.

"Parents need the support now," said Julian Foster, from the Childcare Voucher Providers Association, highlighting that the coalition proposals will not come into force until 2015. "They have an opportunity to make some simple and immediate changes to the existing scheme, such as extending it to the self-employed and also improving employees' access to the scheme through a right-to-request."

David Cameron and Nick Clegg visit a London nursery Getty