News release

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Contact	Kevin Scott, PwC media relations Mob: 07561 789 014 e-mail: kevin.y.scott@pwc.com
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£400bn additional infrastructure spend needed to meet Net Zero target

- £40bn per year required over next decade if UK to meet 2050 deadline, doubling current levels
- Private sector investment critical for power systems, buildings and industry, transport, and digital infrastructure
- No current policy framework to support the long-term low-risk capital required to hit targets

Up to £400bn of investment is required in green infrastructure over the next decade if the UK is to meet its ambitious Net Zero target, according to a new report by PwC commissioned by the Global Infrastructure Investment Association (GIIA).

The *Unlocking Capital for Net Zero Infrastructure* report outlines how existing UK infrastructure requires significant investment to deliver Net Zero. The report estimates that £40bn investment per year is required in new low carbon and digital infrastructure, if the Government's 2050 target is to be met.

This represents nearly a doubling of capital requirements, based on the UK's Infrastructure Delivery Plan, which in 2019 called for more than £20bn of annual private investment in Real Assets sectors such as energy, water and telecoms.

With Government finances stretched post-Covid-19, private investment will be critical to achieving the required increases in spending to revolutionise infrastructure in power systems, buildings and industry, transport and digital.

Existing policy and frameworks are in place to drive low cost investment capital into some Net Zero infrastructure categories identified in the PwC report - such as regulated ownership structures for grid investment and subsidies that support renewable generation investment.

According to the report, however, for more than half of the required £40bn per annum investment requirement, there is currently no policy framework to provide investors with sufficient confidence in long-term revenues and returns. This means that investment in these assets has a relatively high risk and therefore the cost of financing is high, and in many cases may prove prohibitive.

The report identifies several opportunities and challenges when considering accelerating efficient private infrastructure investment.

The UK was the first major economy to set a legally binding Net Zero target and the fast pace of deployment of renewables – particularly offshore wind – has helped make this target achievable. Crucially, the technologies identified to progress the UK to Net Zero are at various stages of maturity and will attract investors with varying risk appetites and cost of capital requirements.

Those where technology is being developed and/or those with nascent business models such as hydrogen or EV charging are not currently able to attract the low-cost patient capital from the likes of infrastructure funds and pension funds, and as all of these technologies have a role to play, a framework is required to make them more attractive to low cost capital.

Colin Smith, Infrastructure Deals leader, PwC, comments:

> "The UK's Net Zero target is an important marker in addressing the global climate crisis, but reaching this ambitious milestone will require huge sums of investment - both in new technologies and accompanying infrastructure. We know the capital and the desire to invest are there, but investors tell us that some of the structures needed to harness this are not.
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> "For the UK to fully succeed in its ambition, we believe Government has a critical role to play in making net zero investment work - by creating a clear vision for investment in our power networks, buildings and industry, our transport links and digital connectivity. Clear targets will be needed for each asset class and enabling policy frameworks developed to drive confidence and predictability in revenue streams.
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> "The post-Covid-19 landscape will provide us with a once-in-a-lifetime opportunity to transition to a low-carbon future, harnessing the forces of recovery towards a greener, fairer and more resilient economy."

The report finds that an increasingly sophisticated global infrastructure investment sector is becoming focused on emerging Net Zero assets, particularly as environmental, social and corporate governance (ESG) moves up the political and business agenda, and pension funds must increasingly demonstrate the environmental benefits of their investments.

These investors are now looking around the world to seek out the best and most supportive environments for investment. The UK must work even harder to stand out to attract large quantities of low-cost capital.

Lawrence Slade, Chief Executive Officer, GIIA, says:

> "Private capital stands ready to help turn the UK's ambitious net zero agenda into reality through the delivery of environmentally and socially responsible infrastructure, but investors need additional clarity from Government around the policy and regulatory framework that will cover these investments."

> "The delivery of a clear and compelling Net Zero infrastructure roadmap is a crucial first step in unlocking the investment needed to decarbonise our economy and ensure a cleaner, greener future."

Janine Freeman, Energy Transition Leader at PwC UK and report co-author, adds:

> "It is vital that we keep the cost of Net Zero investment down so the UK must attract low-cost capital which can be deployed at the scale and pace required to meet the 2050 target.
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> "The good news is that there is an abundance of this kind of long term, patient capital within a growing number of UK and international institutional investment funds such as pension funds, infrastructure funds and sovereign wealth funds."

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Notes to editor

The *Unlocking Capital for Net Zero Infrastructure* report makes five key recommendations for the UK Government to accelerate private infrastructure investment:

1. Create a detailed Net Zero infrastructure roadmap (targets and policies) for power systems, buildings and industry, transport and digital.
2. Identify and further develop revenue support mechanisms to drive efficient, timely and scaled roll-out of each Net Zero asset class.
3. Work with private sector investors to deliver increased public/private investment in emerging infrastructure technologies.
4. Implement best practice in infrastructure funding across UK regions and in other countries to accelerate investment.
5. Provide clear strategic policy guidance to regulators to strike the right balance between consumer interests today and in the future.

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