The Armitt Review

An independent review of long term infrastructure planning commissioned for Labour's Policy Review

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1 Introduction

Any successful modern economy needs excellent infrastructure. The Victorians understood this and in many areas we are still using the infrastructure that they bequeathed to us. Today we cannot dodge the need to adapt what we have inherited or the critical importance of investing for the future. A growing population and changes in the shape of the economy create extra and different demands.

The UK needs affordable clean energy, modern communication systems, flood defences that can cope with the effects of climate change and a transport system that can cope with ever growing demand and which links business with markets and people with families, leisure and job opportunities. If we fail to meet these challenges, we will fail to grow our economy and fail to provide the quality of life that we would want for our children and our grandchildren.

All this is widely understood across the political spectrum but the UK is still struggling to deliver the necessary investment. This is leading to congested roads and airports, the threat of energy brown outs and water shortages. The UK has proven our ability to deliver major projects. The Olympics was a brilliant example of the capability of our engineering and construction sector. High Speed One and Heathrow Terminal Five are other great examples. However, at the front-end of the investment cycle we seem to encounter problems; understanding why we must invest, what we must build, how and when we are going to deliver projects and then sticking to decisions. What are often missing are the enabling factors of cross party support and clear objectives.

It is of course easy, but probably unfair, to blame politicians for vacillation and dodging the difficult issues. Planning and delivering major infrastructure is complex, especially in a country that prizes democratic accountability and where much of the key infrastructure is in private hands but also subject to regulation. Resolution of these issues is why Ed Miliband and Ed Balls asked me to develop a way forward which has cross party support for evidence-based decision making at its core.

With my colleagues I have consulted widely and found a large degree of agreement about the challenges and what needs to be done. This Review sets out our recommendation for a new independent National Infrastructure Commission. Our proposals build on past efforts and seek to learn from experience at home and abroad. We are suggesting what we believe is practicable and do-able.

I would like to thank all those who have contributed to our work and especially my highly experienced Advisory Panel. The UK's infrastructure is critical to its future. I believe that these proposals can help to ensure that going forward, it is delivered more effectively.

Sir John Armitt CBE

September 2013

2 Executive summary

Overview and recommendation

Effective infrastructure has long been recognised as an essential ingredient of an efficient and successful economy. The UK was one of the first economies to develop its physical infrastructure and this accelerated its movement from an agricultural to an industrial and urban society.

However, today there is growing evidence that the UK's infrastructure has not been renewed or enhanced when needed. Indeed in 2012, the World Economic Forum ranked the UK 24th for the overall quality of its infrastructure in its report on global competitiveness. Causes for concern include:

- a 2006 study of the UK transport system by Sir Rod Eddington which warned that the cost of congestion could potentially rise to £36bn per annum by 2025;
- the threat posed to the UK's position as an international aviation hub by its lack of investment in runway capacity in the south east of England;
- the fact that a fifth of the UK's electricity generating capacity is due to come offline within 10 years. As a result, OFGEM has warned of the risk of power shortages by 2015; and
- the fragility of the UK's water supply highlighted by the droughts of 2011 and 2012.

Any failure to address these issues will have real consequences for the day to day quality of life of our people.

To maintain the UK's international competitiveness, we urgently require a coherent 25-30 year national infrastructure strategy. This should be underpinned by an evidence-based assessment of our needs and clear plans as to how these needs will be fulfilled. Any such strategy cannot be delivered without a strong and enduring political will. However, this presents challenges given the confrontational nature of UK politics and the short-term pressures of our electoral cycle. Indeed, political and policy risk around UK infrastructure is perceived to be growing with the result that investor confidence has been undermined

The Armitt Review has sought to square this circle by considering:

- what institutional structure will best support the type of long term strategic decision making that is demanded by infrastructure planning and implementation; and
- how the cross-party consensus that is fundamental to actually delivering upon these decisions can be forged.

Our central recommendation is a new National Infrastructure Commission with statutory independence. Each decade, this body would undertake an evidence-based assessment of the UK's infrastructure needs over a 25-30 year horizon. It would focus predominantly on "nationally significant" infrastructure as defined by the 2008 Planning Act and consult fully with all relevant stakeholders. Once the National Infrastructure Commission has completed its assessment of needs, its work would be passed to Government to obtain Parliament's approval. It would then be the responsibility of Government Departments to produce plans for each infrastructure sector including details of specific projects and the funding and delivery arrangements for these schemes.

To prevent any potentially damaging drift in policy, once the Commission has completed its assessment of needs, it would continue to play a key challenge and monitoring role. New statute would require Government to work up the Sector Plans within 12 months of the Commission's initial report. The Commission would then provide an independent assessment as to whether the policies contained within the Sector Plans were fit for purpose and addressed the needs it had identified prior to these Plans being submitted to Parliament for approval. Finally, it would report each year on how effectively the Sector Plans were being implemented.

This new framework would:

- give a step-change in our understanding of the UK's future needs for "nationally significant" infrastructure; and
- build momentum by holding politicians to account to produce and implement robust proposals within clear timescales.

The Armitt Review has found widespread support for these proposals. Indeed, the need for a National Infrastructure Commission that is independent of Government has been echoed by the following studies that have been undertaken in parallel with our work:

- *Investing for Prosperity* issued by the London School of Economics Growth Commission in February 2013;
- *Overcoming Short- termism with British business* issued by Sir George Cox in March 2013;
- *Transport for Growth* issued by EEF, the Manufacturer's Organisation in April 2013; and
- *State of the Nation* issued by the Institute of Civil Engineering in June 2013.

Diagnosis of the issues

The Advisory Panel has consulted widely issuing a "Call for Evidence" to around 150 individuals and organisations at the heart of promoting, investing in and delivering the UK's infrastructure.

The responses provide little grounds for concern over the UK's ability to build major projects. The 2012 London Olympics saw the delivery on time and on budget of £9bn of investment in stadia and transport links and the Crossrail project is progressing well. There also appears to be no shortage of appetite amongst financial institutions to invest in the UK's infrastructure providing that the balance between risk and return is structured appropriately. Rather, the UK's difficulties stem from two central issues at the front end of the project cycle.

Firstly, successive Governments have failed to set strategic priorities for infrastructure based on clear projections of future needs. The Office for National Statistics forecasts that the UK population will grow to over 73 million people by 2035. However, there is little evidence that the Government is planning for the infrastructure that will be needed by then to support another 10 million people.

Strategic planning is complicated by the fact that much of the UK's key infrastructure is held in private hands. Whilst the privatisations of the 1980s may have improved efficiency, they have also led to a fragmentation of sectors such as water and electricity and a blurring of accountability for creating sufficient infrastructure capacity over the long term. As one of the respondents to our consultation said, "at present, no single body in the UK takes a view of what the picture on the front of the jigsaw box looks like. Rather we hope it comes together, mainly by chance, via the work of a number of separate parties such as investors, regulators and Government."

The second issue is policy uncertainty. The lack of clarity around the UK's long term needs has made it difficult to sustain cross-party political consensus on controversial infrastructure issues. This has resulted in reversals of policy and prevarication over decision making. Changes in the direction of policy following the election of a new Government have also contributed to a "stop-start" approach to investment.

These issues have crystallised most starkly in the area of airport capacity in the south east of England. The 2003 "*The Future of Air Transport*" White Paper set out a 30 year strategy which identified the need for additional runways at both Heathrow and Stansted. However, the White Paper was not progressed and after a change of Government in 2010, the idea of expansion at Heathrow and Stansted was dropped. Most recently, the Davies Review has been established to reconsider this question. The hope is that an independent, evidence based assessment of the issues will help to create political consensus around what has proved to be a highly controversial area of policy. However, by the time Davies reports in 2015, a delay of 12 years will have occurred since the 2003 White Paper. Meanwhile rival hub airports such as Amsterdam will have stolen a march on the UK by delivering major investments in runway capacity.

A National Infrastructure Commission

The National Infrastructure Commission would be set up by an Act of Parliament. Its remit would be to identify the UK's infrastructure needs over the next 25-30 years in order to foster long term economic growth across the UK and maintain our competitiveness amongst the G20 nations. The Commission would also be required to ensure that its recommendations were consistent with achieving the UK's long term climate change targets.

Every ten years, the Commission would produce a National Infrastructure Assessment looking at the UK's needs over a 25-30 year time horizon. The Assessment would focus predominantly on "nationally significant" infrastructure as defined by the 2008 Planning Act. It would cover all of the key economic infrastructure sectors (energy, transport, water, waste and telecommunications) in parallel, rather than looking at individual sectors in isolation. It would set out an overarching vision for the strategic development of our national infrastructure, taking account of the main interdependencies between the sectors. In addition, for each major sector, the Assessment would prioritise the type and scale of investment needed for the UK to maintain its international competitiveness over 5-10 and 20 year timeframes.

In developing its conclusions, the Commission would consider a wide range of projections such as economic growth forecasts, population trends and technological changes. It would also take account of environmental issues and obligations and the regulatory requirements of each sector. In so doing, the Commission would engage widely with outside experts, including infrastructure providers, Non Governmental Organisations, Local Government, investors and regulators. Its National Infrastructure Assessment would also be subject to a formal consultation process before it could be finalised.

Once completed, the National Infrastructure Assessment would be submitted to the Chancellor. The Chancellor would then have a statutory obligation to lay the Assessment before Parliament within a six month period together with any amendments that the Government might propose. The National Infrastructure Assessment would then be debated in Parliament and subject to a vote in both Houses. Following Parliamentary approval, individual Government Departments would then have an obligation to produce Sector Infrastructure Plans within a 12 month timescale.

The Sector Plans would (as with the existing system of National Policy Statements) provide the next level of detail by setting out the specific schemes and projects that Government would promote or support to meet the needs identified by the Commission. However, in addition – in order to provide added confidence to investors – the Sector Plans would also be required to set out:

- the sources of funding that would be drawn upon in order to deliver the proposed investments;
- the timeframes for implementation of all major projects; and
- the preferred vehicle(s) for delivering any new infrastructure.

All Sector Infrastructure Plans would be laid before Parliament for debate and approval. At the same time, the Commission would provide Parliament with a statement commenting on the consistency of the Government's proposals with the infrastructure needs that it had identified. If the Commission thought any Sector Plans fell short of what it believed was necessary, it would say so, publicly, before Parliament took a vote.

Once the Sector Infrastructure Plans had been approved by Parliament they would in aggregate form a new evidence-based National Infrastructure Plan for the UK. The Commission would then monitor how effectively the Sector Infrastructure Plans were being implemented with the results of this independent scrutiny being published each year.

Within the first three years of its existence, the Commission should be asked to submit to Parliament a National Infrastructure Assessment covering the key sectors. Subject to approval, this would then be passed to the respective Government Departments to allow them to develop an initial set of Sector Plans.

In establishing this new process, the Government would need to decide how best to guide policy during the period of transition. For the purposes of this report we have assumed that projects within the current National Infrastructure Plan would continue to progress and that the next Government will press on with the conclusions of the Davies Review on airport capacity.

Why do we need an independent Commission?

There have been a number of innovations introduced by both the previous Government and the Coalition in recent years. However, experience has highlighted certain shortcomings of these initiatives such as the 2008 Planning Act and Infrastructure UK. For example:

- the annual National Infrastructure Plan produced by Infrastructure UK is not strategic. It is essentially a list of projects which is not built up from an evidence-based assessment of the UK's long term needs;
- following the 2008 Planning Act, the production of National Policy Statements (to be replaced by Sector Infrastructure Plans) has been left to the discretion of Departments. This has often resulted in policy and bureaucratic drift; and
- Infrastructure UK does not enjoy the profile of independent bodies such as the Office of Budget Responsibility and the Committee on Climate Change. This means that its annual progress reports lack the authority that comes with statutory independence.

A new Commission will be strategic and evidence based. Our proposals retain democratic accountability whilst reducing the present scope for policy drift that is so damaging to investor confidence. In particular:

- the Commission's evidence based approach will promote a better public understanding of the key issues concerning the UK's infrastructure. It will develop evidence about the state of the nation's assets and the likely impact of key economic, environmental and demographic trends. It will also build an understanding of the implications of either delaying investment or doing nothing. In short, the Commission would provide the level of strategic thinking that has largely been absent in the UK over the past 30 years;
- Parliament will make Departments subject to clear timetable disciplines. They will be required to produce Sector Infrastructure Plans within a fixed 12-month period; and
- the Commission will provide independent scrutiny. It will comment publicly on whether the Departmental Sector Plans are fit for purpose and can be credibly delivered. It will also help to maintain momentum through publishing annual monitoring reports.

By reducing the level of policy uncertainty, the Commission can also improve the affordability of our infrastructure as greater investor confidence should result in a lower cost of capital for UK projects.

Democratic accountability

The aim of the Commission is emphatically not to take power away from politicians. Rather, the idea is to make it easier for politicians to take difficult decisions on controversial, technically complex, issues which are vital to our economic success and where time horizons are well beyond the lifetime of any one Government. The Commission's role is not to ride roughshod over the democratic process and the Advisory Panel has been very conscious of the need to make any new body democratically accountable. We therefore recommend that:

- the Chair of the National Infrastructure Commission should be appointed by the Prime Minister after consulting the devolved Governments and other party leaders. All appointments would be subject to scrutiny by Parliament;
- the Government would be able to amend the National Infrastructure Assessment put forward by the Commission if it saw fit. However, should it choose to do this, it would need to explain why it disagrees with the Commission's independent assessment and support any proposed changes with evidence; and
- the specific schemes and choices over public spending within Sector Infrastructure Plans will remain the responsibility of the Government of the day. Whilst the National Infrastructure Commission will have the right to publicly comment on whether it considers that the Sector Plans are fit for purpose, the Government will always have the last word.

Lessons Learned from other organisations

In developing the institutional architecture around the proposed National Infrastructure Commission, the Armitt Review has studied two sets of organisations:

- overseas institutions which have a strategic infrastructure remit; and
- UK bodies that have been set up in other areas of public policy to either "take politics out" of decision making or to help ensure that Government takes the long view.

Overseas, Infrastructure Australia has had notable success in promoting a more evidence based approach to the appraisal of infrastructure projects and Singapore's Urban Redevelopment Authority provides insight into "best in class" strategic planning. UK institutions studied include the Bank of England, the Office of Budget Responsibility, the Committee on Climate Change and the National Institute for Health Care Excellence. Lessons that have guided the Armitt Review are:

- ***Leadership and Membership:*** success often flows from consistent and visible leadership. Credibility comes from having an expert membership which is acknowledged to bring an independent mind set;
- ***Importance of a clear remit***: clarity as to what a body is there to do can go a long way in helping achieve both political consensus and public understanding around the role of an organisation;
- ***Expertise can ease the political pressures of decision making:*** sound evidence and expertise can allow politicians to take and defend decisions in areas which are technically complex as well as controversial;
- ***Staffing levels***: the resources of an independent body can be relatively streamlined if the existing Government machine is effectively co-ordinated to produce the evidence base; and
- ***Certainty of funding***: organisations that have an independent funding stream are more likely to be robust over the long term.

The need for change

There is an urgent need for change. The UK badly requires an evidence-based strategy which can establish a stable political consensus around how we should develop our infrastructure over the coming decades. Our consultation has provided ample evidence that further institutional change is required to build upon the useful initiatives that have been introduced by both the present Government and its predecessor. We therefore recommend that the next Government takes early action to create a National Infrastructure Commission along the lines set out in this report.

3 Remit and work programme

3.1 Remit of the Armitt Review

As has been recognised by the establishment of the Sir Howard Davies Review of aviation capacity, there is a growing need to build lasting cross-party consensus on major decisions around infrastructure investment. Aside from the question of aviation capacity, there are a range of other infrastructure sectors where long term strategic decision making has become imperative. These include improving road and rail links, securing stable and clean energy supplies and building the water supply and waste treatment facilities that the UK's growing population will need. Without greater consensus, political stalemate has the potential to delay key investment decisions with the result that the UK's economy and quality of life falls behind those of our international competitors.

With this in mind, the remit of the Armitt Review was to consider:

- what institutional structure would best support the type of long term strategic decision making that is demanded by infrastructure planning and implementation; and
- how can the cross-party consensus that is fundamental to delivering upon these decisions be forged?

3.2 The Advisory Panel

At the outset of the Review, an Advisory Panel was appointed to provide senior-level insight and expertise from both Government and industry when reviewing evidence and developing conclusions. This Panel comprised:

- ***Andrew Adonis***. Andrew was Secretary of State for Transport from 2009-10 where he led the way in promoting High Speed Rail in the UK. He was previously Minister for Schools from 2005 – 08. Andrew's current roles include advising on Labour's review of industrial policy and chairing an independent commission on the economy of the North East of England.
- ***Alan Buckle.*** Alan is Global Deputy Chairman of the consultancy firm KPMG where his priority is high growth sectors, including infrastructure. Alan has worked in all significant geographic markets and currently chairs KPMG's oversight board for China.
- ***Chris Elliott.*** Chris founded Barclays Infrastructure Funds Management in 1996. He was CEO until 2011and will serve as Chairman until September 2013. Chris was seconded to the Private Finance Panel in 1994-95 and has served on the Credit Committee of the NHS Foundation Trust Financing Facility and London First's Transport Group. Chris has over 30 years experience of financing major projects across a range of infrastructure sectors.
- ***Paul Golby***. Paul is the Chairman of Engineering UK and a Non-Executive Director of National Grid having previously been the Chief Executive of E.ON UK plc. Paul is also Chairman of the Engineering and Physical Sciences Research Council and a member of the Prime Minister's Council for Science and Technology.
- ***Rachel Lomax***. Rachel was formerly Deputy Governor of the Bank of England and a member of the Monetary Policy Committee from 2003-08. She currently holds Non-Executive Director posts at Heathrow Airports Holdings Ltd and HSBC Holdings Plc. Prior to this Rachel held a number of key posts in Government including Permanent Secretary at each of the Department for Transport, the Department for Work and Pensions and the Welsh Office.
- ***David Rowlands.*** David is a former Permanent Secretary of the Department for Transport and has served as Chairman of both High Speed Two and Gatwick Airport. David is currently Chairman of Angel Trains Group and Semperian PPP Investment Partners. David has extensive experience in transport having worked as a former Director General for aviation, rail and maritime.

3.3 Work Programme

The work programme of the Armitt Review has had three key elements which are described below.

3.3.1 The Call for Evidence

The "Call for Evidence" was issued in December 2012 to around 150 individuals and organisations with experience of promoting, planning and delivering infrastructure in the UK. It was also posted on the Armitt Review website to encourage responses from any other interested parties. The "Call for Evidence" comprised a set of structured questions which are set out in full in Appendix One. Key areas in which evidence was sought were:

- ***Diagnosis of current issues and difficulties –*** what are the failings of the UK's previous/existing decision making mechanisms for infrastructure and what have been the consequences of these failings?
- ***Lessons that can be learned from elsewhere –*** what can be learned from institutional structures established overseas to promote long term infrastructure planning? What lessons can be learned from the success of the 2012 London Olympic and Paralympic Games?
- ***The remit of an independent Infrastructure Commission –*** what would be an appropriate planning horizon for a Commission, what sectors should it cover and how should it interact with existing bodies such as Network Rail and the regulators?
- ***How would cross-party consensus best be achieved –*** where should the members of the Commission be drawn from, how would a Government accept the Commission's proposals for implementation and how might the course of strategy be reviewed following the outcome of an election?

Over 60 organisations submitted written responses to the "Call for Evidence" and these parties are listed in Appendix Two. Each of the submissions were reviewed by the Advisory Panel and respondents to the "Call for Evidence" were then invited to two roundtable events in April and May. Over 40 organisations were represented at these roundtable discussions.

In addition to this, during the course of the Review Sir John Armitt has chaired a number of roundtable events convened by other organisations and professional associations. These include the Infrastructure Forum, the Confederation of British Industry, the Civil Engineering Contractors Association and the Foundation for Science and Technology.

3.3.2 Review of other relevant institutions

As part of the work programme, two types of institutions were studied:

- a number of overseas bodies with a strategic infrastructure remit. Examples include Infrastructure Australia, Infrastructure Ontario, the National Infrastructure Unit in New Zealand and Singapore's Urban Redevelopment Authority; and
- UK bodies, with statutory independence, established to provide an oversight role. Examples include the Office of Budget Responsibility and the Committee on Climate Change.

In each case, the Advisory Panel considered the remit of the body, its relationship with Government and the degree to which the organisation had been successful in establishing political legitimacy and generating cross party support.

3.3.3 Meetings of the Advisory Panel

The Advisory Panel met on 16 occasions between December 2012 and August 2013. As well as considering responses to the "Call for Evidence" and studying relevant institutions, a number of individuals were invited to attend meetings in order to discuss specific issues. These included:

- Sir Howard Bernstein, Chief Executive of Manchester City Council;
- Robert Chote, Chief Executive of the Office of Budget Responsibility;
- Sir Rod Eddington, Chairman of Infrastructure Australia;
- Stephen Joseph, Chief Executive of the Campaign for Better Transport;
- David Kennedy, Chief Executive of the Committee on Climate Change;
- Dr Ng Lang, Chief Executive of Singapore's Urban Redevelopment Authority;
- Sir Adrian Montague, Chairman of 3i;
- Robbie Owen, Partner at Pinsent Mason;
- Shaun Spiers, Chief Executive of the Campaign to Protect Rural England;
- James Stewart, KPMG Infrastructure Advisory Chairman and ex Head of Infrastructure UK; and
- Dr Tim Stone CBE, Special Advisor to Secretary of State at DECC 2008 – 2012.

4 Diagnosis of the issues

4.1 Overview

A priority of the Advisory Panel was to understand:

- the principal obstacles to progressing major infrastructure investment in the UK today; and
- the shortcomings of previous/existing mechanisms and institutions set up by Governments to promote infrastructure delivery.

This section summarises the most prominent issues identified by the Review. It is not an exhaustive commentary. Rather it provides a background to the thinking that has informed the blueprint for an independent National Infrastructure Commission which is the centrepiece of this report.

At the outset of this discussion, one important piece of context is crucial. The UK is unique in that following the privatisations of the 1980s and 1990s, around 60% of its key economic infrastructure is held in private hands – Australia comes next at around 30%. Whilst privatisation may have brought efficiency benefits, one consequence is a fragmentation of responsibilities and a blurring of accountabilities for maintaining high quality assets over the long term. This situation was described most simply by one respondent to the Call for Evidence who said that "at present, no single body in the UK takes a view of what the picture on the front of the jigsaw box looks like. Rather we hope it comes together, mainly by chance, via the work of a number of separate parties such as investors, regulators and Government."

4.2 Diagnosis of current issues and difficulties

The principal obstacles identified as hindering long term investment in the UK's infrastructure are set out below.

- ***Lack of long term strategic planning***: Successive Governments have failed to set strategic priorities around infrastructure investment based on clear projections of the UK's future needs. The Office for National Statistics, for example, forecasts UK population will grow to over 73 million people by 2035. However, there is little evidence that Governments are planning for the infrastructure we will need by then to support another 10 million people.

  Furthermore, when long term decisions are made, they can be taken in silos with little acknowledgement of the interdependencies between sectors. An example of "silo-thinking" is the absence of a National Policy Statement for transport networks. As a result, the debate around High Speed Two is taking place independently of any assessment of options for the strategic roads network.

  As a consequence, decisions around major projects are not always driven by an evidence based assessment of all of the policy alternatives. This absence of an evidence base also contributes to a lack of public understanding of the condition of the UK's infrastructure and the importance of investing in assets to maintain our national quality of life.

- ***Policy uncertainty***: Major infrastructure projects are often controversial and politicians are rarely in office long enough to see the electoral dividends of major investment programmes. As a result, the lack of clarity around the UK's long term infrastructure needs makes it difficult to build and sustain cross-party political consensus when difficult decisions need to be taken.

  A consequence of this can be reversals of policy and prevarication over decision making. Changes in the direction of policy following the election of a new Government can also result in a "stop-start" approach to investment.

- ***Lack of transparency around funding:*** Much of the policy debate on infrastructure fails to address the fundamental question of "Who Pays?" Whilst the private sector can provide some resources on a speculative basis in the early stages of project development, over the long term funding of infrastructure can only come from three sources – national taxation, local taxation and user charging. Politicians are often wary of making decisions that will result in commitments to increase either public expenditure or user charges over the long term.

- ***Length of the planning process***: Planning of major infrastructure has on occasion been delayed by Governments trying to use the planning system to decide policy issues which should be for Ministers to settle. A prime example is Heathrow Terminal Five where the planning process took eight years in part because of the lack of a clear strategic statement of policy against which the need for additional terminal capacity could be judged. A further issue is the effectiveness with which the UK's planning system provides compensation to local residents who are impacted by the problems caused by major infrastructure projects.
- ***Limitations of regulation:*** The regulatory framework for privatised utilities has led to a focus on a short term view of efficiency and consumer protection. Ensuring that there is sufficient investment to meet the UK's long term infrastructure needs has on occasion taken second place.

It is notable that the obstacles identified above are heavily concentrated at the "front-end" of the investment cycle. Discussions during the Review indicate that there is no shortage of appetite amongst financial institutions to invest in the UK's infrastructure providing that the balance between risk and return is structured appropriately. Furthermore, the experience of the past decade with High Speed One, and more recently the London 2012 Olympics suggests that Britain has made significant strides in delivering big infrastructure more effectively. Our failure is in reaching an evidence-based view on what needs to be delivered and then in sustaining the political and public consensus that will provide confidence to investors. This is critical in an environment where 60% of Britain's key economic infrastructure is held in private hands.

Within specific sectors, the most frequently cited examples of where these difficulties have manifested were as follows:

- ***Energy policy:*** In common with other developed economies, the UK faces significant challenges in achieving a balance of security, stability and affordability in energy supply whilst at the same time meeting its carbon reduction targets. However, under successive Governments, progress has been slow in delivering a long term policy/regulatory framework that gives sufficient confidence to deliver the required investment in the sector.

  As a result of this policy uncertainty, OFGEM, the regulator of the energy sector has warned of an imminent drop in spare capacity from a margin of 14% at present to just 4% in 2015. Beyond 2017, when conventional generation facilities reach the end of their useful life at the same time that existing nuclear facilities are de-commissioned, this could become an actual shortage in the UK's generating capacity.
- ***Airport capacity:*** Both Heathrow and Gatwick are operating at near full runway utilisation with the result that the UK's international gateways experience some of the worst delays in Europe. The 2003 "*The Future of Air Transport*" White Paper sought to address the issue of constrained airport capacity and was published after extensive analysis and consultation. It set out a 30 year strategy for airports and aviation and identified the need for additional runway capacity at both Heathrow and Stansted.

  However, the White Paper was not progressed and after a change of Government in 2010, the idea of expansion at Heathrow and Stansted was dropped. The result has been a vacuum in long term policy. The Davies Commission is now re-examining all of the options for maintaining the UK's position as an international aviation hub. By the time it delivers its conclusions in 2015, a delay of 12 years will have occurred since the publication of the 2003 White Paper.
- ***Rail:*** Whilst the regulatory framework underpinning the rail industry is strongly supported by ATOC and Network Rail, several respondents noted that major projects that fall outside of this regulatory process can still take years to come to fruition. Lack of long term planning and political consensus delayed Crossrail by 20 years and the Thameslink project has suffered from a protracted planning process. High Speed One opened 13 years after the completion of the Channel Tunnel and under current plans, High Speed Two will open 19 years after High Speed One.
- ***Roads***: Whilst the Government has established a systematic five year process for planning and funding Britain's railways, there is no comparable structure in the roads sector (although we note this is currently under review). The Highways Agency operates and maintains Britain's strategic roads with responsibility for the rest of the network sitting with local authorities. This fragmentation has made strategic thinking in the sector more challenging. Beyond this fragmentation of responsibilities, short term fluctuations in the roads budget further constrain effective planning. 2008-2010 saw a significant ramp up in roads expenditure as part of

Government’s ‘fiscal stimulus’ programme. However, following the change of Government, capital spending on roads fell by around a half. Now, in its most recent Spending Review, Government has increased capital spending on roads again for the remainder of the decade.

- ***Water***: The existing five year regulatory process is perceived to undermine long term planning. Investment slows down in the early years of any one Asset Management Plan, then ramps up to a peak for two or three years only to ramp down again as the next review approaches.

  A further concern is that the regulatory process is not designed to accommodate or address the need for major capital projects such as the Thames Tideway tunnel or a new reservoir in the south east of England. The result is that such projects are often difficult to progress and can suffer from a lack of senior political sponsorship within Government.

4.3 Previous attempts to provide special regimes for infrastructure

4.3.1 Overview

The “Call for Evidence” asked for views on the success or otherwise of the UK’s previous attempts to provide special regimes for infrastructure planning and delivery.

4.3.2 The Infrastructure Planning Commission

The Infrastructure Planning Commission (IPC) was established by the 2008 Planning Act as a non-departmental public body responsible for the examining and in some circumstances making decisions on planning applications for nationally significant infrastructure projects in England and Wales.

The IPC’s framework for decision-making is set out in National Policy Statements (NPSs) for each sector. NPSs were introduced as part of the 2008 Planning Act and are prepared by the Secretary of State with responsibility for the area of infrastructure to which they relate. They include the Government's objectives for the development of nationally significant infrastructure, the reasons for the policy set out in the Statement and, where appropriate, specific locations for new infrastructure. This settles the policy framework and removes questions of need before major infrastructure schemes enter planning. The result is that the planning process focuses much more tightly on the mitigation of local impacts.

Following the designation of a NPS, the 2008 Act provided the IPC with jurisdiction to decide applications in that sector. Whilst an NPS was in draft form, the IPC acted as Examining Authority and provided a report of recommendation to the relevant Secretary of State who was to take the final decision. The Coalition Government's Localism Act 2011 contained clauses to abolish the IPC and transfer its decision making powers in all cases to the relevant Secretary of State. Since 1 April 2012, the acceptance and examination of applications for development consent is now dealt with by a new Infrastructure Planning Unit within the Planning Inspectorate.

The model of the IPC as an independent body able to fast-track the planning for nationally significant infrastructure projects was held as sound by many who responded to the “Call for Evidence”. Removing matters of need from the planning process can potentially avoid the prolonged enquires that hindered projects such as Thameslink and Heathrow Terminal 5. However, at present the process is felt to be undermined by the following issues:

- the NPSs on which the new regime relies are of variable quality and in certain cases are not of sufficient depth to give promoters of infrastructure projects the confidence to invest;
- pre-application procedures were criticised as being “slow and cumbersome”. The speed of post-application processes may have been achieved at the expense of delays in pre-application; and
- a number of issues continue to be reserved for other bodies such as the Environment Agency and the Health and Safety Executive.

Despite these drawbacks, the majority view was that the regime established by the 2008 Planning Act and now overseen by the Planning Inspectorate was a significant step forward. Given that it is less than five years old it should be given more time to bed down with further overhaul being of limited benefit.

4.3.3 Infrastructure UK

Infrastructure UK (IUK) was established in 2010 as a unit within HM Treasury to:

- provide greater clarity and coordination over the planning, prioritisation and enabling of investment in UK infrastructure; and
- to improve delivery of UK infrastructure by achieving greater value for money.

IUK sits within the Treasury's Enterprise and Growth Directorate. The Chief Executive is supported by an Advisory Council made up of Permanent Secretaries from the key infrastructure departments as well as senior representatives from the private sector. Each year, IUK produces a National Infrastructure Plan. This covers the core economic infrastructure sectors (energy, transport, waste, flood defences, science, water and telecoms).

Respondents to the "Call for Evidence" said that IUK had done much to raise the level of debate around infrastructure. The National Infrastructure Plan was praised for providing at least some indication of Government's priorities and a pipeline of projects. At the same time, many felt that:

- IUK's position within Treasury means that its remit is inevitably constrained. The National Infrastructure Plan does not represent a genuinely evidence based strategic vision for Britain. Rather, it simply consolidates priorities agreed by Government in the short to medium term; and
- IUK is compromised by the lack of detailed policy conclusions within Government Departments. As a result, the National Infrastructure Plan is light in terms of project timeframes and funding commitments. A clearer picture on timeframes and priorities would inspire greater confidence amongst investors.

4.3.4 The Hybrid Bill process

Historically, hybrid bills have often been used by Government on behalf of railway companies and transport agencies to obtain authorisation for major projects deemed to be in the national interest, but which will affect a large number of private interests. Examples of hybrid bills have been those to construct the Channel Tunnel, High Speed One and Crossrail.

Hybrid Bills were recognised by those who responded to the Call for Evidence as having been successful for major projects which are of a national interest but have primarily local effects. They enable focused statements of objection and debate in Parliament and give the public the potential to have their say by submitting petitions. However, limitations of the process are:

- difficulties of managing more than one Hybrid Bill at a time due to the constraints of the Parliamentary timetable;
- the process imports significant delays into project delivery. Development and design up to outline planning stage is required if a project is to withstand Parliamentary scrutiny. Alterations will almost certainly emerge from the process which then require more development work to be undertaken; and
- Hybrid Bills are generally unable to consider a range of schemes so are unsuitable for policy selection or prioritisation.

4.3.5 The Howard Davies Review on Aviation

The Davies Review was established by the Secretary of State for Transport in September 2012 to consider question of additional airport capacity in the south east of England. The Review has been instructed to take a UK-wide perspective, evaluating the national, regional and local implications of any proposals. It is also required to engage with a range of stakeholders, including local and devolved Government as well as the Opposition in order to build consensus in support of its approach and recommendations.

The Davies Review is to report by the end of 2013 on:

- its assessment of the nature, scale and timing of the steps needed to maintain the UK's global hub status; and

- its recommendation(s) for immediate actions to improve the use of existing runway capacity in the next five years – consistent with credible longer term options.

The Review is then to report no later than summer 2015 on:

- its assessment of the options for meeting the UK's international connectivity needs, including their economic, social and environmental impacts; and
- its recommendation(s) for the optimum approach ensuring that the UK's needs are met as expeditiously as practicable within the required timescale.

As part of its final report, the Davies Review is to provide materials which will support the Government in preparing a NPS to accelerate the resolution of any future planning applications for major airports infrastructure.

Respondents to the "Call for Evidence" were confident that the remit of the Davies Review would be diligently fulfilled. The process was seen to have brought together an appropriate group of specialists to commission and consider the evidence. However, concerns were expressed around:

- the remit of the Review. Some argued that aviation policy needs to be considered alongside the full range of multimodal options and not in isolation. For example, decisions on High Speed Two will have been taken before the Davies Review concludes its work; and
- the capacity of the Davies Review to turn the outputs of its work into a long term policy which enjoys cross-party support.

5 Study of Overseas/UK institutions

The Advisory Panel has studied a number of relevant overseas and UK organisations to understand any lessons that might help shape the design of the independent National Infrastructure Commission. Further details of the remit and structure of these organisations are provided in Appendix Three.

5.1 Overseas institutions

The overseas institutions studied were Infrastructure Australia, Singapore's Urban Redevelopment Authority, Infrastructure Ontario and New Zealand's National Infrastructure Unit.

Organisation	Remit	Key Lessons
Infrastructure Australia	Advises on national infrastructure needs/priorities. Allocates Commonwealth Funds to State sponsored projects following an "evidence-based" appraisal	■ IA has had success in promoting a more evidence based approach to appraisal. Some States have set up similar bodies e.g. Infrastructure New South Wales ■ Influence in part comes from role in allocating capital. However, prominence also helped by highly visible leadership and effective governance structure with strong private sector/regional representation. ■ Organisation kept lean (Secretariat of 10 people) by drawing on work of the States
Singapore Urban Redevelopment Authority (UDA)	Long term land use planning to support future development/continued economic growth	■ Long term 40 year Concept Plan is underpinned by more detailed 10 year Master Plans produced by each department. Close working between UDA and individual Government departments is critical ■ Plans are supported by detailed analysis of global megatrends ■ Singapore's People's Action Party has been in power since 1959. Establishing political consensus is clearly not the same issue that it is in UK
Infrastructure Ontario	Supports Ministry of Public Infrastructure Renewal on procurement, project management and financing issues for complex projects	■ Where a large volume of work has to be planned and procured in a short period a separate arms-length body can help provide focus and specialist skills
New Zealand's National Infrastructure Unit (NIU)	Unit within Treasury that forms 20 year National Infrastructure Plan and establishes cross-government frameworks for project appraisal and asset management	■ New Zealand has invested in understanding the actual performance of its infrastructure assets through Better Business Case initiative ■ Strong information base can better inform capital investment decisions around renewal/replacement

5.2 Relevant UK institutions

The UK institutions studied were the Bank of England, the Office of Budget Responsibility, the Committee on Climate Change and the National Institute for Health Care and Excellence.

Organisation	Remit	Key Lessons
The Bank of England	The Bank's Monetary Policy Committee (MPC) sets the interest rate that will enable its inflation target to be met	■ Transparency is maintained by publication of MPC minutes and regular reporting to Parliamentary Committees ■ MPC has credibility as a result of the expertise of its membership ■ Bank of England has independent, long term security of funding via a levy on UK financial institutions ■ Chancellor maintains the ability to adjust the remit of the Bank by altering its guidance ■ MPC members maintain a two way dialogue with business to get first-hand intelligence of the UK's economic situation
Office of Budget Responsibility (OBR)	Provides an independent five year forecast of the growth of the economy. Assesses Government's progress on meeting its five year fiscal targets and the long term sustainability of the public finances	■ The independent expert voice of the OBR improves the transparency of the debate around the public finances ■ The OBR has maintained a small staff (17 people) by drawing upon the work of HMT, HMRC and DWP ■ The OBR has a very clear remit. Extension of the remit is a matter for Parliament and not for the OBR itself.
Committee on Climate Change (CCC)	Advises on five yearly carbon budgets. Provides independent monitoring of Government's progress towards 2050 emissions targets	■ Credibility of the CCC is enhanced by the deep expertise of its independent members ■ Media presence of first Chairman of CCC Adair Turner helped build a clear public narrative around climate change ■ CCC is funded directly by DECC with no long term funding arrangement in place
National Institute for Health Care and Excellence (NICE)	Provides an independent assessment of the medicines/treatments that the NHS should fund on a national basis	■ Sector experts can provide support and give power to politicians when taking decisions in controversial areas where they do not have detailed technical knowledge

5.3 Overall conclusions

In many instances, independent bodies are established because they are "an idea whose time has come." It is notable that IA, IUK and New Zealand's NIU were all set up in close succession. Similarly, around 15 other countries including US, Australia, Holland and Sweden have equivalent bodies to the OBR. Such organisations were seen as increasingly relevant at a time when most major economies had to undertake fiscal repair jobs in the light of the economic crisis.

However, if there is a tendency for independent bodies to be set up when they are fashionable, equally there is a danger that they are under resourced or wound down whenever it is deemed that a crisis has passed. A number of themes have emerged from the Advisory Panel's work which would appear to increase the chances of a National Infrastructure Commission being successful over the long term. These are summarised below.

- ***Importance of a clear remit***: Clarity as to what a body is there to do can go a long way in helping achieve both political consensus and public understanding around the role of an organisation. Equally, clarity as to what the organisation is not there to do can help avoid "mission creep";
- ***Expertise can ease the political pressures around decision making:*** NICE is a good example of a body that allows politicians to make decisions based on publicly available expert knowledge;
- ***Staffing levels***: The experience of IA, OBR and CCC suggests that the resources of an independent body can be relatively streamlined if the existing Government machine can be effectively co-ordinated to produce the information that forms the evidence base;
- ***Leadership and Membership:*** the success of IA and CCC can at least in part be attributed to strong and visible leadership. Equally, the OBR enjoys credibility because its membership combines an expert knowledge of the workings of Treasury and the Bank of England's Monetary Policy Committee with a strong reputation for independence; and
- ***Certainty of funding***: Organisations such as the Bank of England that have an independent funding stream are more likely to be robust over the long term.

6 Blueprint for a National Infrastructure Commission

6.1 Overview

In a democracy, any Government must maintain the prerogative either to introduce new policies or to reject certain infrastructure schemes. However, the "Call for Evidence" indicates strongly that the UK would benefit from a new institutional structure that would make the current tendency for policy drift more difficult to sustain and mean that when a Government does change course, this is only done on the basis of sound evidence.

To bring about this change, the central recommendation of the Armitt Review is the establishment of a new independent National Infrastructure Commission. The proposed architecture of this Commission is set out in detail below. This encompasses:

- how the Commission would be established;
- the remit of the Commission;
- how the Commission would report; and
- how the Commission would interact with Parliament and the Government of the day.

The proposals seek to address the issues at the "front-end" of the investment cycle highlighted as problematical by the "Call for Evidence". They have been informed by the experiences of the Advisory Panel, both in Government and in the private sector and by the study of relevant institutions in the UK and overseas.

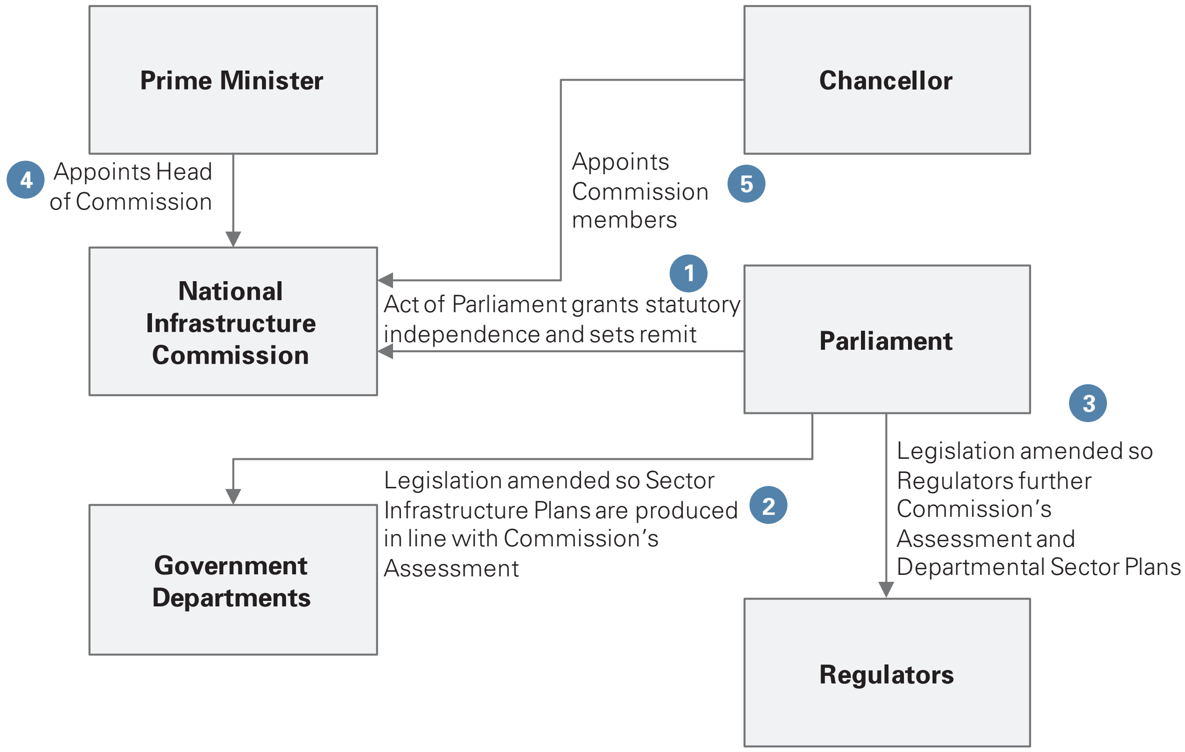
6.2 Establishing the National Infrastructure Commission

The National Infrastructure Commission would be set up by an Act of Parliament along somewhat similar lines to the Committee on Climate Change. The legislation setting up the National Infrastructure Commission would:

- give the National Infrastructure Commission statutory independence;
- set out its remit and outline the key outputs of the Commission such as the National Infrastructure Assessment and its review of the Departmental Sector Plans;
- provide for the laying of these ouputs before Government and then Parliament, details of which are outlined in 6.4 and 6.5 below;
- set out arrangements for appointments to the National Infrastructure Commission including the minimum and maximum number of senior members and the areas of expertise and interest to be covered. The Chair would then be appointed by the Prime Minister after consulting with the devolved Governments and other party leaders. Its members would be appointed by the Chancellor after consulting with both the Chair and the devolved Governments. The Chief Executive would be appointed by the Chair after consulting with the Chancellor. All appointments would be subject to scrutiny by Parliament;
- provide for the giving of guidance by Government and the devolved Governments;
- give the National Infrastructure Commission powers to require information from Government Departments and other relevant bodies; and
- provide for stable funding to underpin the National Infrastructure Commission's work. Funding would be agreed in 10 year tranches by means of an affirmative resolution order which would allow Parliament to ensure that funding is set at adequate levels.

After the second reading of the Bill has been passed, the National Infrastructure Commission could be set up in shadow form.

Figure 1 Establishment of National Infrastructure Commission



Legislation impacting other relevant institutions would be amended in order to allow the National Infrastructure Commission to fulfil its remit. This would include:

- introducing a new overriding duty on all economic regulators both to further the Commission's National Infrastructure Assessment once endorsed by Parliament and specifically to further the implementation of the relevant Sector Infrastructure Plans once approved by Parliament; and
- new obligations for Government Departments (Transport, DECC, Defra, DCLG) such that Sector Infrastructure Plans (which would replace National Policy Statements) are produced in line with the National Infrastructure Assessment as approved by Parliament within a 12 month timescale.

6.3 Remit of the National Infrastructure Commission

The remit of the National Infrastructure Commission would be to identify the UK's infrastructure needs over the next 25-30 years in order to:

- foster long term economic growth across the UK; and
- maintain the UK's international competitiveness amongst the G20 nations.

Recommendations must also be consistent with achieving the UK's long term climate change targets and ensuring that economic growth meets sustainability requirements.

The National Infrastructure Commission would focus predominantly on "nationally significant" infrastructure as defined by the 2008 Planning Act. It would report across all of the key sectors of economic infrastructure where National Policy Statements are currently designated. These are:

- energy covering renewable energy, fossil fuels, oil and gas storage and supply, electricity networks and nuclear power;
- transport covering ports, transport networks (including rail and roads) and aviation; and
- water supply and treatment of waste water/hazardous waste.

In addition to this, two further sectors would be within the Commission's remit – telecommunications (e.g. super-fast Broadband) and strategic flood defences. The Commission would not consider housing requirements – rather the Government's forecasts of housing growth would be an input into its work. However, the legislation establishing the National Infrastructure Commission would allow for additional sectors to be added to its remit as the Government saw appropriate.

In reaching its conclusions around the UK's long term infrastructure requirements, the National Infrastructure Commission would consider:

- economic growth forecasts;
- population trends;
- long term tax and spending policy as forecast by the Office of Budget Responsibility;
- Government forecasts of housing growth;
- environmental and climate change considerations;
- regulatory requirements such as those of the EU;
- forecasts of technological change in each sector; and
- any other matters which the Government might refer to it.

Given its long term remit, in the first instance, the National Infrastructure Commission's Assessment of the UK's infrastructure needs would not be limited by any shorter term affordability constraints. However, plans for funding and financing investment and the prioritisation of Government's resources would be a key element of the Sector Infrastructure Plans produced by each Department.

The National Infrastructure Commission would be able to appoint expert sub-committees in each sector to gather and consider evidence. These sector teams would include individuals from the public and private sectors experienced in scheme promotion. To help undertake their work the sector teams would:

- have a Memorandum of Understanding in place with each of the relevant Government Departments in order to provide access to any modelling tools and analysis;
- be able to request evidence from regulators and delivery organisations such as Network Rail and the Highways Agency; and
- be able to commission work such as studies on global benchmarks and resilience/condition of existing assets. These studies might be completed by the regulators on the National Infrastructure Commission's behalf.

6.4 The National Infrastructure Assessment

Every ten years, the National Infrastructure Commission would produce a National Infrastructure Assessment looking at the UK's needs over a 25-30 year time horizon. In order to better capture interdependencies, this Assessment would consider all of the infrastructure sectors within the Commission's remit in parallel, rather than looking at individual sectors in isolation.

As well as identifying need, the Assessment would provide a high level commentary as to how this need might be most effectively delivered within each sector. The commentary would draw upon both UK and relevant international experience and consider:

- the appropriate balance between investing in new infrastructure and improving the condition of existing assets in order to deliver value for money;
- how the UK's infrastructure needs might be met in a way that is as sustainable as possible. New technology, efficiency measures or different charging approaches such as Smart metering might impact upon the scale of investment in new infrastructure that is actually required;
- those geographic regions within the UK where new investment is required to be targeted;

- the scale of funding necessary to address the needs identified and any potential new sources of funding such as user charging; and
- whether current delivery models or regulatory arrangements are fit for purpose and where these need to be strengthened.

The Commission would not seek to promote investment in new infrastructure for its own sake. Rather, it would consider how the UK's future needs could be met in a targeted and efficient manner with value for money being a primary consideration.

Across the sectors within its remit, the National Infrastructure Commission would identify those areas that it considered to be national priorities for investment. However, the 25-30 year National Infrastructure Assessment would not formally rank investments across different sectors against each other on the basis of the benefits that they would deliver.

The National Infrastructure Assessment would not just look forward 25-30 years. Rather, for each sector, it would also indicate the type, scale and priority of investment needed for the UK to maintain its international competitiveness within 5-10 years and at 20 years out.

The National Infrastructure Commission would be required to consult widely with interested parties in drawing up its Assessment in order that infrastructure providers, Non-Governmental Organisations, Local Government, investors and regulators are all fully involved. It would also be required to consult formally on the Assessment in draft before it could be finalised.

The Chancellor would be able to issue guidance to the National Infrastructure Commission to review the prevailing National Infrastructure Assessment once in each Parliament. This might be triggered as a result of a change of Government or in order for the National Infrastructure Commission to consider the impact of any changes in megatrends or major technological advances.

Following on from the 25-30 year Assessment, the National Infrastructure Commission would produce a report each year detailing progress that has been had made in addressing the long term needs it has identified. In each sector the Commission would consider whether:

- Government Departments are providing the strategic policy direction required;
- the planning system is effective in how it is dealing with major schemes;
- the regulatory environment is fit for purpose in bringing forward investment;
- asset condition within the sector is sufficiently well understood; and
- critical questions of funding have been addressed.

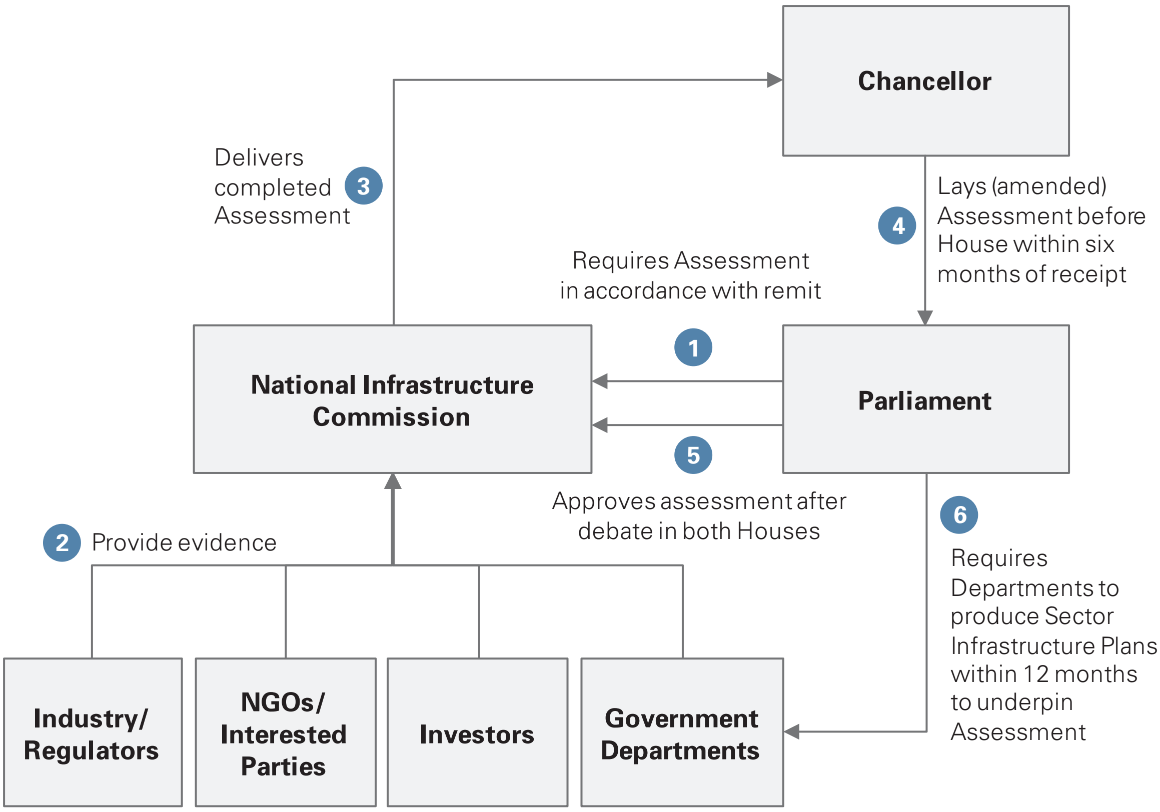
6.5 Interaction with Government and Parliament

Approval of National Infrastructure Assessment

The National Infrastructure Commission would report to Government in the first instance by delivering its National Infrastructure Assessment to the Chancellor. The Chancellor would then have a statutory obligation to lay the Assessment before Parliament within a six month period together with such amendments that the Government might propose. The National Infrastructure Assessment would be laid before Parliament together with a substantive motion seeking Parliamentary approval by means of a vote in both Houses.

Parliament may then refer a draft of the Assessment back to the Commission for further consideration of specific areas.

Figure 2: Preparation and approval of the National Infrastructure Assessment



Once the Commission's conclusions around long term needs have been approved by Parliament, then individual Government Departments would have a statutory duty to produce Sector Infrastructure Plans to support the National Infrastructure Assessment.

Approval of Sector Infrastructure Plans

Within this blueprint, the emphasis on Government Departments to provide the necessary strategic direction to deliver investment/reform in each sector would increase markedly from that which exists today. To underline this change in emphasis, the current National Policy Statements would be renamed Sector Infrastructure Plans.

In the first instance, within each Sector Infrastructure Plan, the Government of the day would add the next level of detail as to how the needs identified by the National Infrastructure Commission would be met by setting out specific schemes and projects. For example:

- if the Commission identified a need for extra reservoir capacity in the south east of England, the Sector Infrastructure Plan for water would set out the preferred location for this; and
- if the Commission highlighted a need to improve transport connectivity between certain centres of population, then the transport networks Sector Infrastructure Plan would bring forward specific road and rail proposals to address this.

However, the Sector Infrastructure Plans would be required go further still. To improve public/ investor confidence, they would also explain:

- the different sources of funding that would be drawn upon in order to deliver any proposed investment. For example the Sector Infrastructure Plan for transport networks would explain whether the roads schemes identified were to be funded by the Government or from tolls/user charging;
- detailed timescales for the procurement and delivery of projects; and
- the preferred vehicle(s) for delivering infrastructure investment.

The National Infrastructure Commission would provide guidance to each Department in respect of the content of the Sector Infrastructure Plans. This would include:

- requirements as to the sub-sectors where individual Sector Infrastructure Plans should be produced (e.g. for Department for Transport, aviation, ports and transport networks); and
- where it is required that a Sector Infrastructure Plan is location/project specific.

The Departments would have a statutory obligation to produce a Sector Infrastructure Plan within one year that is consistent with the needs identified by the National Infrastructure Assessment as approved by Parliament.

Once a Sector Infrastructure Plan has been produced, the National Infrastructure Commission will lay before Parliament a statement that either confirms its consistency with the Assessment or sets out the areas of inconsistency together with an analysis of what that might mean for overall delivery against the needs identified. In reviewing the Sector Plans the Commission would consider whether:

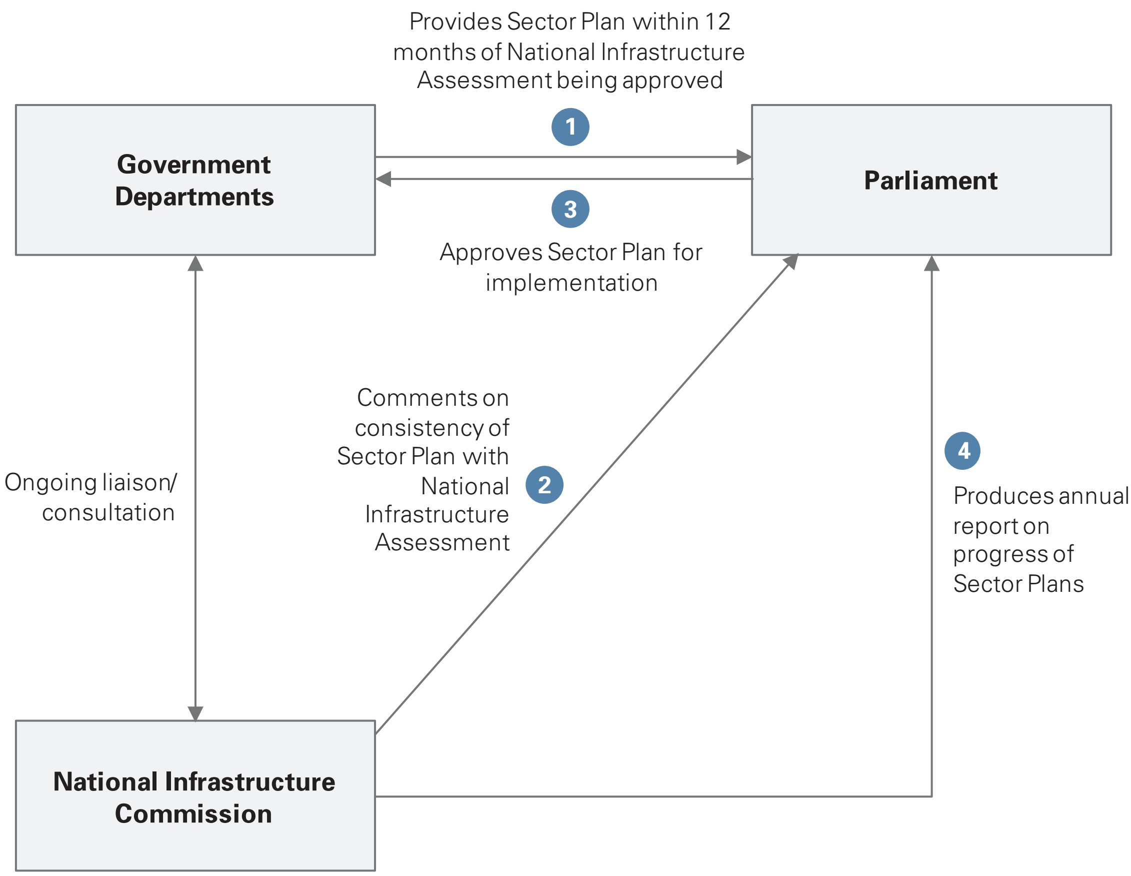
- the approach proposed by the Department adequately addresses the long term need identified by the Commission; and
- whether the detail provided on funding, timescales and delivery is credible in the context of the scale and timing of the investment needed in that sector.

With this input from the National Infrastructure Commission, it will then be for Parliament to approve the proposed Sector Infrastructure Plans with whatever amendments it may decide upon. Once the Sector Infrastructure Plans have been debated and approved by Parliament, they would in aggregate form a new evidence-based National Infrastructure Plan for the UK,

Going forwards, a key function of the National Infrastructure Commission, via its annual report, would be to monitor how effectively the proposals contained within the Sector Infrastructure Plans are actually being implemented.

The duties of the economic regulators would be amended, following the establishment of the Commission, so that they would be under an overriding duty to further both the National Infrastructure Assessment and the implementation of any relevant Sector Infrastructure Plans once they had been approved by Parliament.

Figure 3: Approval of Sector Infrastructure Plans



6.6 Impact on existing regimes/institutions

The "Call for Evidence" has highlighted notable support for the planning regime established by the 2008 Planning Act and now overseen by the Planning Inspectorate. There is little market appetite to revisit this model before it has had more time to bed down. Therefore, under the blueprint, this planning regime would remain in place. However, it would be strengthened by ensuring that the Sector Infrastructure Plans (which will replace National Policy Statements) become more consistent in granularity across all infrastructure sectors thereby helping remove questions of need from the planning process.

It is anticipated that the role of Infrastructure UK would be revisited once the National Infrastructure Commission is established.

7 Questions and answers

The blueprint for an independent National Infrastructure Commission outlined in section 6 represents a radical step forward in how infrastructure would be planned in the UK. To conclude, the Advisory Panel provides responses to a number of questions that it is anticipated that readers of this report are likely to put forward.

What will the Commission change? What will be different?

The role played by the Commission will have three principal benefits:

- a single body will be tasked with taking an independent view of the UK's infrastructure needs over the long term. This level of strategic thinking has largely been absent over the past 30 years;
- by reviewing all sectors in parallel, interdependencies will be considered. It will also prevent certain sectors being overlooked by Government should they "go out of fashion;" and
- the Commission will hold politicians to account by requiring a robust plan for each sector to be produced within a year of the findings of the National Infrastructure Assessment being approved by Parliament. This will address Britain's tendency for policy drift. In addition annual reporting will provide regular public scrutiny of Government's progress in delivering agreed plans.

Will the Commission undermine democratic accountability by taking decisions away from elected politicians?

No. Ultimately, the Government of the day will be able to amend the recommendations put forward by the Commission and it is important that it retains this right. However, where it chooses to do this, the Government will be under greater scrutiny to provide evidence to support the change and explain how an alternative route it might take will address the needs identified by the Commission.

The specific schemes and choices over public spending within the Sector Infrastructure Plans will remain the responsibility of the Government of the day. However, the National Infrastructure Commission will retain the right to publicly comment on whether it considers that the Plans produced are fit for purpose.

What happens if the needs identified by the National Infrastructure Commission are unaffordable in aggregate?

Within the Sector Infrastructure Plans, the Government will factor in the availability of public funding. It could be that the Government chooses to prioritise investment in certain sectors over others in the short to medium term due to prevailing affordability constraints. Affordability issues will be discussed with the Commission when the Sector Infrastructure Plans are presented for comment.

However, one of the key roles of the Commission is to provide greater transparency to debates around funding. Any Government has a choice either to prioritise funds away from infrastructure or to apply charging mechanisms that do not confront users with the full long term cost of maintaining high quality assets. The Commission will increase the awareness of the long term consequences for the international competitiveness of UK of either under-investing in infrastructure or of doing nothing.

What is to stop a new Government shutting down a National Infrastructure Commission?

Ultimately, the Government of the day will have the power to introduce new legislation which would wind up the Commission. However, if the Chair and the Members have built up a credible public profile and have a record of working effectively with previous administrations, as is the case with the independent Bank of England and the Office of Budget Responsibility, then this will be considered to be a contentious decision. It is likely that the Government would be required to explain why abolishing the Commission would improve long term infrastructure planning in the UK and the growth potential of the economy.

What if the Commissions predictions of infrastructure needs are wrong? A 25-30 year horizon is a long time?

The Commission will develop a range of scenarios in making its forecasts of need. Approaches to this type of scenario modelling are well advanced within the UK's universities. The Commission would focus on those needs that are most common to the widest range of scenarios when drawing up its National Infrastructure Assessment.

Should there be a major technological advance during the 10 year period in between the publication of National Infrastructure Assessments then Government could ask the Commission to review its work and consider whether any Sector Plans need to be amended.

How will the Commission engage with the public in order to promote a wide understanding of its recommendations?

The Commission will be required to undertake a full public consultation on the findings of the National Infrastructure Assessment before it is submitted to Government. Members of the Commission will be required to attend public meetings in each region of the UK in which they would explain the approach it has taken to its work.

Is there a danger that the deliberations of the Commission slow infrastructure investment down in the UK rather than speed it up?

Ultimately, the Commission will speed up decision making in the UK as its evidence based approach will make it easier to establish consensus around the need for infrastructure investment and avoid a "stop-start" approach. The requirement for Departments to produce detailed Sector Plans within a twelve month timescale will then establish a momentum to translate the National Infrastructure Assessment into specific schemes and projects. This momentum will be maintained by independent annual reporting on progress.

The biggest risk is a hiatus in activity during the period in which the Commission prepares its initial National Infrastructure Assessment. The working assumption of this report is that the Government of the day would continue to deliver the projects in the present National Infrastructure Plan against the background of existing National Policy Statements and to press on with whatever the Davies Review should recommend.

The other problem is the time which the Commission will inevitably take before it can finalise its National Infrastructure Assessment. We have suggested in the Report that, once legislation to create a National Infrastructure Commission has received its Second Reading, the Commission could be set up in shadow form. So, for example, the Government could at that point bring together a panel of outside experts who, with consultancy support if necessary, would work with Departments in Whitehall, regulators and stakeholders to begin to assemble evidence. In parallel the Government could set in train the process to find the Commission's Chair and members. An early start following Second Reading would help get the National Infrastructure Commission off to a flying start.

Appendix 1 The "Call for Evidence"

1. Diagnosis of current issues and difficulties

- Where has a lack of long term planning or political consensus impacted on the delivery of critical infrastructure in the sector/projects in which you/your organisation have been involved?
- What were the failings within the existing decision making and planning mechanisms that you/your organisation experienced?
- What were the consequences of these failings?

2. Past/existing attempts to provide special regimes for infrastructure delivery

- What have been the limitations of previous initiatives in this area such as the Infrastructure Planning Commission, the Hybrid Bill process and the establishment of Infrastructure UK?
- How might the model of the Howard Davies review of aviation capacity help to address these limitations and any other issues raised in 1) above? Which of the issues raised might this model not address?

3. The role remit of an independent Infrastructure Commission

- If a Commission that is independent of Government was set up to look at the long term infrastructure needs of the country:
  - What would be an appropriate planning horizon – 15, 30 or 50 years?
  - What factors should the Commission consider (mega trends, demographics, sustainability, economic growth, environmental legislation)?
  - What sectors should it cover – transport, energy, housing, telecommunications?
  - Should the remit be limited to the outcomes required (infrastructure capacity) or to evaluating/recommending potential schemes to deliver these outcomes?
  - How should the Commission interact with existing bodies such as Network Rail, the Highways Agency and Infrastructure UK?
  - How should the Commission interact with devolved administrations, regional and local Government?
  - How might funding/affordability constraints be factored into any review?

4. Establishing cross party consensus

- To help bring about cross-party consultation and agreement around conclusions:
  - Where should the members of the Commission be drawn from?
  - What timeline should the Commission work on? Should it report once per Parliament or more often?
  - Who would initiate reviews – Government or the Commission?
  - How would a Government accept proposals for implementation? How might the course of strategy be changed following the outcome of an election?

5. Lessons Learned

- What lessons can be learned from structures established overseas for long term strategic planning and implementation of infrastructure?
- What lessons can be learned from the London Olympic and Paralympic Games?

Appendix 2 List of respondents to the "Call for Evidence"

ABB Limited	ABTA
Arup	ASDA
ATOC	Balfour Beatty
Berwin Leighton Paisner LLP	Bircham Dyson Bell
Birmingham Airport Limited	British Chambers of Commerce
British Telecom	Campaign to Protect Rural England
Carillion	CH2M Hill
Civil Engineering Contractors Association	Communications Workers Union
Costain	EC Harris
EEF – The Manufacturers Organisation	Freight on Rail
Gatwick Airport	The Green Alliance
Heathrow Airport	Independent Transport Commission
Infrastructure Alliance	Infrastructure Australia
Institute for Government	Institute of Civil Engineers
Institute of Highways and Transportation	Institute for Transport Studies
Kent County Council	Kier Group
Laing O'Rourke	Lloyds Banking Group
Local Government Association	London Borough of Newham
London Stansted Airport	MACE
Manchester City Council	National Grid
Network Rail	Northern Power Grid
Office of Budget Responsibility	Pricewaterhouse Coopers
RAC Foundation	Road Ahead Group
Royal Academy of Engineering	Royal Town Planning Institute
South East Local Enterprise Partnership	Thames Water
Town and Country Planning Association	Trades Union Congress
Transport Salaried Staff's Association	TSSA
UCATT	UK Power Networks
University College London	University of Birmingham
Virgin Trains	Water UK

Appendix 3 Overview of Institutions studied

Overseas Institutions

Infrastructure Australia

Infrastructure Australia (IA) was set up in 2008 in order to:

- provide advice on Australia's current and future infrastructure needs and priorities; and
- establish an evidence based approach to allocating Commonwealth funds to State sponsored projects. Australia is notable in that policy making in the majority of infrastructure sectors is driven at the State level. Only telecommunications and aviation are planned on a national basis.

IA is a statutory body consisting of a Chair and 11 other members. Of the members:

- nine (of whom one is the Chair) are nominated by the Commonwealth of whom at least five must have private sector experience and one must have experience of local Government; and
- three are nominated by the States, the Australian Capital Territory and the Northern Territory.

IA is chaired by Sir Rod Eddington. Sir Rod was Chief Executive Officer of British Airways from 2000 to 2005 and has also served on the Boards of JP Morgan, News Corporation and Rio Tinto Group. No politicians attend the Board of IA. However, meetings are attended by the senior civil servants from the Treasury and the Prime Minister's office.

In 2008, IA had $8bn of Commonwealth funds to allocate between State projects. Although available funding has reduced materially since then as a result of the financial crisis, IA has maintained its relevance by producing high profile annual reports. These have set out the criteria by which infrastructure projects should be appraised and Commonwealth funds prioritised and made recommendations as to how any impediments to nationally significant infrastructure projects should be addressed.

The resources of IA are relatively small with the Board being supported by a secretariat of 10 people. Rather than undertaking studies and primary research, IA sees its role as evaluating proposals submitted to it by the States and other bodies. This approach has been driven by the Chairman in order that resources are used as efficiently as possible.

Singapore's Urban Redevelopment Authority

The Urban Redevelopment Authority (URA) was established by an Act of Parliament and reports to Singapore's Minister for National Development. It has responsibility for Singapore's long-term land use planning in order to support future development and continued economic growth. The URA has two platforms for planning, the Concept Plan and the Master Plan.

The Concept Plan is a strategic, long term land use and transportation plan which takes a 40-50 year view and is updated every 10 years. The first Concept Plan was developed in 1971 and resulted in the development of Changi International Airport, as well as Singapore's Mass Rapid Transit System (MRT). The latest Concept Plan was produced in 2011. The biggest factor informing the Concept Plan is a detailed forecast of population growth. However, the Plan also considers what is necessary to safeguard Singapore's continued role as an international business hub.

The Master Plan is the statutory land use plan which translates the long term strategies of the Concept Plan into detailed plans to guide development. It is updated every ten years setting out the permissible land use and density for developments in Singapore. Strategies in the 2008 Master Plan included decentralisation by promoting new growth areas outside of the city centre such as Jurong and Paya Lebar. This is to be supported by the Downtown Line and Thomson Line extensions to the MRT network.

The URA has a Chairman and a Stakeholder Board of up to 12 members. Board members are chosen from both the public and private sectors and come from a wide range of fields including architecture, media, accountancy, Government and national defence.

Whilst URA co-ordinates Singapore's land-use planning, detailed inputs are provided by the relevant Government Departments. This works smoothly because Singapore has a relatively small senior civil service in which many of the key personnel have rotated between the top jobs. As a result, there is a shared understanding of the challenges of each Department. Once the Concept and Master Plans have been produced, the delivery of individual projects within the Plans falls to the relevant Government Department. The Departments have a statutory obligation to deliver these Plans.

Infrastructure Ontario

In 2004, Ontario's Ministry of Public Infrastructure Renewal set out a new Planning, Financing and Procurement Framework to address an infrastructure deficit that it estimated to stand at $100bn. The vision of the Ministry was to shift infrastructure planning to a long-term horizon supported by sustainable financing models and sound asset-management practices.

As part of the delivery of this strategy Infrastructure Ontario (IO) was established in 2005. IO's remit was to procure some of Ontario's more complex infrastructure renewal schemes as well as project managing the construction phase of certain projects. Other functions included providing public sector and not-for-profit organizations with long-term financing in order to renew infrastructure.

IO is a crown corporation wholly owned by the Province of Ontario and established by the Ontario Infrastructure and Lands Corporation Act. The Chair and Chief Executive of IO are appointed by the Lieutenant Governor and report to the Minister of Infrastructure. IO prepares an annual report that is approved by the Board and submitted to the Minister for tabling in the Ontario Legislature. Whilst the Minister is not bound by IO's advice, the organisation is highly influential.

For the period that IO has operated, the Liberal Party has remained in power in Ontario. Therefore to date, the scale of cross-party backing for IO has not been tested as its remit has never been subject to review by an incoming Provincial Government.

New Zealand's National Infrastructure Unit

The National Infrastructure Unit (NIU) was established in 2009 by the new National Party Government to help improve the quality of decision-making on infrastructure. The NIU was set up within Treasury so has parallels with IUK and is effectively part of Government. Its responsibilities include:

- formulating and monitoring progress on, a 20-year National Infrastructure Plan (to be updated every three years). The National Infrastructure Plan itself is signed off by the Minister of Finance;
- establishing robust and reliable cross-government frameworks for infrastructure project appraisal and capital asset management, and monitoring the implementation and use of those frameworks;
- providing active transaction support to Government agencies in the preparation of PPPs (the PPP team has recently moved out of the NIU as a result of a restructuring within the Treasury).

A primary focus of the NIU has been the actual performance of the stock of assets that underpin the productive functioning of the economy, specifically transport and energy networks and key buildings such as schools and hospitals. The Better Business Case initiative places emphasis on improving the information base to allow measurement of outcomes and inform the allocation of new investment.

A National Infrastructure Advisory Board (NIAB) has been established to provide the NIU and the Minister for Infrastructure with input from the private sector. The Chair, Dr Rod Carr is a former Deputy Governor of the Reserve Bank and has also held senior roles at the Bank of New Zealand and National Australia Bank. Other Board members include lawyers, economists, heads of private equity funds and engineers. The NIAB is not involved in setting long term infrastructure strategy. Rather it reports on more micro-level issues such as project appraisal and capital asset management.

UK Institutions

Bank of England

In 1998, the Bank of England became an independent public organisation. The Bank is independently funded via a levy on the UK's financial institutions and the Monetary Policy Committee (MPC) is responsible for setting the interest rate which will enable the Bank's inflation target to be met. The MPC has nine members – the Governor, the two Deputy Governors, the Bank's Chief Economist, the Executive Director for Markets and four external members. The external members have an expertise in economics and are appointed directly by the Chancellor. They serve fixed terms after which they may be replaced or re-appointed.

Members of the MPC do not represent individual groups or areas but are independent. The MPC's decisions on interest rates are made on the basis of one-person, one vote and not based on a consensus of opinion. To provide public accountability, minutes of MPC meetings are published two weeks after each interest rate decision. These give a full account of discussions, including differences of view. They also record the votes of the individual members of the MPC. The MPC has to explain its actions regularly to parliamentary committees, particularly the Treasury Committee.

Further public engagement is provided by MPC members regularly speaking to audiences throughout the country to explain policy decisions and thinking. This is a two-way dialogue with the visits also giving MPC members a chance to gather first-hand intelligence about the economic situation from businesses and other organisations.

In 2011 the Financial Policy Committee was created as a mirror committee to the MPC to spearhead the Bank's new mandate around the regulation of the UK's banks and insurance companies.

Office of Budget Responsibility

The Office of Budget Responsibility (OBR) was set up in 2010 as a Non-Departmental Public Body under the lead of the Treasury (HMT). The backdrop to this was the economic crisis with Government requiring an independent body to reassure the markets at a time of major fiscal consolidation.

The OBR is jointly accountable to the Executive and to Parliament and has a remit to:

- produce five-year forecasts of the economy and the public finances;
- judge the progress of the Government towards its five-year fiscal targets;
- assess the long term sustainability of the public finances; and
- scrutinise HMT's costing of policy measures in the run-up to the Budget and other major announcements.

It is not part of the OBR's remit to give policy advice as to how the Government's fiscal objectives might best be met. If the OBR's terms of reference were to be extended, then this should be a matter for Parliament and not for the OBR itself.

The OBR has a small staff – 17 in total. It produces its own macroeconomic forecasts but draws on the work of other bodies (HMT, Her Majesty's Revenue and Customs and Department for Work and Pensions) in order to produce forecasts of tax receipts and public spending. OBR has a memorandum with each of these bodies around access to information. Acting as a small commissioning/co-ordinating body in this way helps avoid duplication of activity across Government.

The OBR's funding is set for four years in a "letter of revenues" published as part of the Spending Review. The OBR could be vulnerable to either a budget squeeze or the denial of information. In either case, its ultimate course of action would be to make representations to the media.

The OBR considers that its principal "value-add" is not in improving economic forecasting – City economists take a range of different views about this between themselves. Rather its value is in improving the transparency of the debate around the public finances by adding an expert, independent voice.

Committee on Climate Change

The UK was the first country to introduce a national legally-binding framework (the Climate Change Act of 2008) to tackle the issue of climate change. This included a target of an 80% reduction in emissions by 2050. As part of the 2008 Act, the Committee on Climate Change (CCC) was established as an independent, statutory body to provide advice on five yearly "carbon budgets" and monitor progress towards the 2050 target. The CCC is jointly sponsored by the Department of Energy and Climate Change (DECC), and the devolved Governments.

The CCC has a Chairman and seven independent members. The independent members are all established experts in matters of science and technology. The Chief Executive of the CCC leads a Secretariat of around 35 staff which provides analytical support to the Committee. The Secretariat draws upon modelling undertaken by DECC with whom it has a memorandum of understanding around the exchange of information.

The first Chairman of the CCC Adair Turner established a strong media presence in order to help build up a clear narrative around climate change. A decision was taken by the CCC that it should have a single public voice to ensure that this narrative was as consistent as possible.

The CCC's independent statutory position means that its advice is highly influential and is often directly reflected in legislation and the Government's carbon strategy. Indeed, the Chief Executive of the CCC has appeared before the Energy and Climate Change Select Committee on over 20 occasions since 2008. If a Government sought to disregard the advice of the CCC then it could potentially be subject to judicial review.

In addition to advice on the level of carbon budgets and updates on Government's progress towards meeting climate targets, the CCC also undertakes detailed research on climate change science, economics and policy. It has recently issued reports on electricity market reform and how the UK is preparing for potential impacts of climate change such as flooding and water scarcity.

The CCC is funded directly by DECC with no formal long term arrangements in place. Therefore any pressures felt by DECC during a Public Spending Review may be felt equally by the CCC.

National Institute for Health and Care Excellence

The National Institute for Health and Care Excellence (NICE) is a non-departmental public body of the Department of Health. Since January 2005, the NHS has been legally obligated to provide funding for medicines and treatments recommended by NICE's technology appraisal board. This process was set up in part to address "postcode lottery" anomalies whereby certain less common treatments were funded in some parts of the UK but not in others due to local decision making within the NHS.

For each new treatment NICE agrees the scope of the technology appraisal with the Department of Health. Patient groups and organisations representing health care professionals then submit evidence which the manufacturers of the product get the opportunity to respond to. An independent academic centre then draws together and analyses all of the published information on the technology under appraisal and prepares an assessment report. This report is examined by an independent Appraisal Committee which hears spoken testimony from clinical experts, patient groups and carers. The Committee takes these testimonies into account and invites further comments from stakeholders before a 'final appraisal determination' is submitted to NICE for approval.

NICE has designed its appraisal process to be fully independent of Government and lobbying power. Instead, decisions are entirely based on evidence of clinical and cost effectiveness.

Labour's Policy Review

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