ICE Autumn Statement Submission

Introduction

High quality, high performing infrastructure is vital for economic growth and improved quality of life. Infrastructure also acts as a catalyst for social and economic inclusion, encouraging greater participation in society from people of all walks of life. In particular, during uncertain or volatile economic times, continued investment in UK infrastructure - with clear government commitments - would help provide economic stability, enhance productivity, facilitate inward investment and drive economic growth.

The UK sits just 24th in the World Economic Forum (WEF) 2016 Global Competitiveness infrastructure rankings, behind a number of our economic competitors including Japan (6th), France (8th) and Germany (13th). The WEF opinion survey states that ‘inadequate supply of infrastructure’ is the second most problematic factor for doing business in the UK\(^1\).

The pressing needs for housing in the short term, and the wider impacts of population growth on both economic and social infrastructure in the medium term, provide an opportunity for an investment-led boost to the economy. At the same time, all 21 cities in the North of England are below Europe’s urban productivity benchmark.\(^2\) We believe that infrastructure should be efficient, affordable and sustainable. Infrastructure investment provides Her Majesty’s Government with an opportunity to tackle the UK’s poor productivity performance.

Infrastructure investment provides a strong economic stimulus with a multiplier effect that can help to rebalance growth around the country. An investment of an additional 1% of GDP increases output by 0.4% in the year that investment is made and a further 1.5% in the four years following the investment.\(^3\) The UK’s 10 Core Cities deliver 25% of the nation’s GDP and are home to 19 million people.\(^4\) Their importance as economic hubs has been acknowledged by successive governments; however, without sustained investment in infrastructure they are unlikely to achieve their potential.

5. Enabling devolution through the creation of regional infrastructure strategies and enhancing delivery of infrastructure through regional infrastructure pipelines

Key facts

- £1 of infrastructure construction raises economic activity by £2.84\(^5\)

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\(^2\) Centre for Cities 2016
\(^3\) IMF 2015
\(^4\) Core Cities 2015 [http://www.gva.co.uk/core-cities/](http://www.gva.co.uk/core-cities/)
\(^5\) Civil Engineering Contractors Association [http://www.ceca.co.uk/media/103459/ceca_cebr_report_-_securing_our_economy_the_case_for_infrastructure_-_may_2013.pdf](http://www.ceca.co.uk/media/103459/ceca_cebr_report_-_securing_our_economy_the_case_for_infrastructure_-_may_2013.pdf)
Every 1,000 direct jobs created by the delivery of new infrastructure boosts wider employment by over 3,000 jobs

In 2014 the construction industry contributed £103bn in economic output, 6.5% of the UK total

In 2015 2.1 million jobs were in the construction industry, or 6.2% of the UK total

Infrastructure Investment – continue to build confidence in investor and delivery communities

The UK uses a mix of private and public investment to pay for infrastructure programmes and projects. Regulated sectors enjoy a high level of investment due to the consistent approach to regulation, inelastic demand, cash yield, GDP linkage and stable credit ratings. While regulation may have to adapt to reflect changing needs of users and the economy, any legislative or regulatory changes should carefully consider the impacts on investor confidence. The public and private sectors have not benefited from this consistent approach nor stable levels of investment.

The Infrastructure Pipeline, managed by the Infrastructure Projects Authority, has provided investors with a forward view of upcoming infrastructure programmes and projects. The long term programme approach to infrastructure delivery is welcome as it reduces exposure to stop-start investment issues. The NIDP has made a welcome contribution to outlining Government’s ambitions but consistent and timely delivery is required to build and maintain confidence across the investment and delivery communities. Without that confidence it is unlikely the necessary resources will be committed (and skills attracted) to achieve optimal value for the taxpayer.

The investor and delivery communities require confidence that governments will continue to support and incentivise infrastructure investments. The NIC is a powerful symbol of commitment to infrastructure and its role as an independent authority on infrastructure should transcend electoral cycles and changes of administration. We welcome Government’s announcement to formalise the NIC’s role and its pledge to respond to the NIC’s recommendations within 6 months of their publication. In the early years of the NIC it may be necessary to review its status and we ask Government to remain open to the option for establishing the NIC on a statutory footing.

The National Infrastructure Assessment (NIA) should be established as a permanent feature in the fiscal calendar. The NIC has an important role in identifying the short, medium and long term infrastructure requirements of the UK and should be seen so to do without fear or favour. It should guide government to achieve continued progress beyond the end of the decade as well as and supporting the policy debates on long term issues such as demand management (e.g. in energy, transport, water), electricity generation and water supply in the South East.

Energy, water, flooding, transport and digital all have capital infrastructure programmes that reach to 2020 and many years beyond. To address short falls in maintenance spending, which tends to operate on annualised budgets, all sectors should adopt a total expenditure approach (TOTEX).

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6 CEBR 2015
7 House of Commons Library 2015
http://researchbriefings.files.parliament.uk/documents/SN01432/SN01432.pdf
8 Ibid
will enable a whole life approach to infrastructure investment which ensures that maintenance spending does not fall behind the level necessary.

Official UK Government sources suggest that between 2010/11 and 2014/15 £49 billion per annum was invested in infrastructure from a combination of public and private sources. While welcome, this falls someway short of the OECD recommended target of £80 billion per year by 2020-21. The OECD figure acts as a guide to developed governments and we recognise that achieving this level of increased investment may not be possible during this short period. However, government can do more to increase public sector investment or improve incentives to the private sector (or a combination of both) to reduce materially the £31 billion gap by 2020/21.

The private sector is an important player in infrastructure investment. It should not be viewed merely as a mechanism for filling in the investment gap in infrastructure. Its knowledge and expertise in risk management and contracting should be used to ensure that infrastructure projects are delivered to time and cost.

**NIDP and Pipeline – accelerate progress to build confidence in pipeline and integrate with NPS**

Since 2010, the government has published five iterations of the National Infrastructure Delivery Plan (NIDP). This pipeline of work has helped improve the environment for infrastructure by providing visibility and consistency, marking a move away from previous stop-start funding patterns. The current value of the supporting pipeline of work is £483 billion. The timely and consistent progress of the 600 projects scheduled for delivery is essential to continue to build confidence in infrastructure investment and to ensure that the proposed £297 billion worth of projects and programmes is delivered by 2020-21.

In addition to this we would like to see Government work with the private sector and public delivery bodies, such as Highways England, to accelerate programmes and projects in the infrastructure pipeline and to ensure integration with existing National Policy Statements – and new ones where necessary.

Given the support for infrastructure and the opportunity to support GDP during the uncertainty expected in the coming years we believe that there are opportunities to accelerate social and economic infrastructure delivery.

Opportunities exist amongst smaller and more tactical projects (often social infrastructure and housing) to accelerate delivery but this potentially risks coming at the costs of inefficiency and reduction in value for money. We believe that strategic bundling of such smaller schemes combined with incentivised partnerships across public and private sectors would support both efficient delivery and value for money. In addition to infrastructure that enables accelerated housebuilding, local transport, flood prevention and water schemes may warrant specific consideration. Building energy

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efficient homes has interdependency benefits of reducing energy demand saving home owners money on bills over the long run.

Amongst the larger projects there are several that are at well advanced stages of planning but require timely decisions. We welcome the recent Hinkley Point announcement and look forward to similar announcements on Airport Capacity and HS2. Projects of this scale are politically sensitive and take a long time to develop to the point at which commitment to commence can be made. We believe that the promotion and development of strategic energy and transport projects should be accelerated to increase UK productivity and enhance standards of living across the UK. In turn, these will attract the skills, resources and capital required to deliver programmes and projects across the coming decades.

Long term to infrastructure policy - an independent NIC and alignment of NIDP with NNA/NIA

ICE supports the establishment of a National Infrastructure Commission (NIC) that can be recognised as independent and authoritative. The National Needs Assessment provides the NIC with a blueprint for a long term approach to infrastructure policy. The NIC should work across Government departments and political parties to build evidence based consensus on infrastructure policy.

Effective infrastructure drives economic growth, supports job creation and creates thriving sustainable and innovative societies. But infrastructure is expensive, often disruptive during the construction phase, and requires fine political judgement so that finite resources are best used to meet society’s need. The UK Government has worked closely with industry to address the challenge. And, since 2012 a loose coalition of business, engineering, professional services, legal services, academia and manufacturing has formed. A set of broad principles has emerged:

- Delivering effective infrastructure underpins successful socio-economic policies.
- Delivery is greatly eased by a consistent approach to macroeconomic forecasts.
- Attracting investment into UK infrastructure is essential for success.
- Infrastructure requires a “systems of systems” approach.
- Major infrastructure decisions benefit from broad political consensus.

We need to articulate what the UK needs from its infrastructure over the long term. Government, Industry, Investors and the Public have to understand the contribution that infrastructure makes to the economy and society. We need to demonstrate the way infrastructure boosts productivity, grows the economy and improves health and well-being. We also need to know what infrastructure costs so that we can identify choices based on benefit, risk and opportunity. And we need to set out a framework that allows us to take decisions on the use of public and private money, charges to customers, and investors’ funds for best collective benefit.

We expect that the NIC’s National Infrastructure Assessment (NIA) will seek to achieve this and that it will be complemented by a refreshed suite of National Policy Statements.

The publication of the National Needs Assessment provides an opportunity to review the NIDP and examine the prioritisation and timing of the schemes outlined therein. A clear alignment of the
NNA, NIDP and in time, the NIA, will again support wider confidence across the infrastructure sector. This in turn will increase the likely investment in the resources and skills made by the private sector thereby maximising opportunity to deliver the efficient, affordable and sustainable infrastructure the UK needs, enhance UK productivity and deliver such at the optimal value for money.

Devolution – regional strategies and pipelines for infrastructure

ICE welcomes the Government’s recent commitment to devolution; however, we believe Government should devolve greater fiscal powers to Combined Authorities. Combined Authorities will be able to use this extra capital raising measures to leverage private investment. In our recent State of the Nation Devolution ICE recommended that regional strategies should be developed to identify infrastructure need, ensuring the devolution of infrastructure policy in England is most effective. The strategies’ aim should be to determine ongoing infrastructure need to coincide with aspirations to build major new economic regions in the Midlands and the North of England.

While they should have regard to the National Infrastructure Commission’s (NIC) work, they should not duplicate it, but focus on appropriate regional infrastructure for delivery by bodies including combined authorities, sub-national transport bodies and local councils.

The National Infrastructure Pipeline has provided increased visibility and consistency for investors and those delivering infrastructure programmes and projects nationally. ICE believes that the pipeline should be re-examined and segmented at a regional level to achieve similar outcomes. These will be particularly helpful in sequencing delivery of upcoming projects and providing foresight on skills requirements.

About ICE

Founded in 1818, the Institution of Civil Engineers (ICE) is a UK-based international organisation with over 91,000 members, ranging from students to professionally qualified civil engineers. It is an educational and qualifying body and has charitable status under UK law. Under our Royal Charter, ICE has become recognised worldwide for its excellence as a centre of learning, as a public voice for the profession and as a leading source of expertise in infrastructure and engineering policy.