
A UK Infrastructure Authority: streamlining the infrastructure debate

Introduction

Over the last few Parliaments it has become increasingly apparent that the UK lacks the appropriate institutional framework to allow us to identify, plan and deliver major infrastructure projects getting them from conception to completion in a streamlined way.

Infrastructure requirements are often identified too late, resulting in solutions being rapidly outlined by government's with little time for a detailed explanation of need and a structured public debate on the pros and cons or alternatives. If this coincides with an election a possible change of government may then occur leading to the cancellation of a project.

This issue does matter for businesses, particularly manufacturers. The availability of high-quality, well connected infrastructure is a crucial issue for manufacturers. Good networks facilitate industrial growth and underpin the ability of manufacturers to do business.

From sending and receiving goods and raw materials to managing supply chains and accessing new markets overseas, good infrastructure is an essential building block for the UK's long-term competitiveness and growth.

Businesses have witnessed the indecision over a third runway at Heathrow leading to Britain slowly losing out to international competitors, watched as our roads have become more congested while decisions over upgrades to key strategic routes such as the A14 have been delayed, approved, then cancelled only to be back on the cards again. These examples exacerbate the feeling that Britain's infrastructure is not geared up to support growth.

To speed up the delivery of projects, recent governments have sought to streamline the process introducing reforms such as changes to the way strategic roads are managed, smoothing the planning process for nationally significant projects and setting up the Airports Commission to provide a recommendation on maintaining Britain's aviation hub status.

This is a good start; however the time has come for the UK to start developing the opportunities of tomorrow not simply tackling yesterday's challenges. EEF believes a permanent independent infrastructure body would be a game changer and we have identified five key principles which we feel are fundamental for any such institution to work effectively:

- Accountability to Parliament not Government – giving it independence
- Rest on strong engagement and consultation with the public, businesses, government, political and other stakeholders
- Look ahead at the UK's need for infrastructure, set these out in detail and kick start the process to find potential solutions
- Have ownership of the methodology to appraise suggested projects in each sector in a uniform way
- Leave final decisions on which projects to take ahead with Government and Parliament

Our proposals set out in this paper outline a modest institutional way forward based on these principles and primarily build on the approach already taken by the Airports Commission. We believe the establishment of a UK Infrastructure Authority as a non-ministerial government department accountable directly to Parliament will help to streamline the debate on infrastructure overcoming significant problems inherent in the system.

Ultimately what we want is the next government to move toward this set up, to ensure the UK is in a position to start developing world class infrastructure to support long-term competitiveness, boost productivity and support sustainable growth.

The issue

The most fundamental problem that the UK has struggled with on infrastructure is the ability to make strategic, long-term, decisions and then forge and sustain a political consensus on them both within government and across rival political parties. This has resulted in extremely protracted decision-making and a succession of policy reversals in key areas of infrastructure such as energy and transport.

This issue has become more pronounced in recent years following the perceived prevarication around projects such as High Speed 2. Additionally, several reports and bodies have come to the same conclusions in recently published reports, such as the LSE Growth Commission¹, the Institution of Civil Engineers² and the Armit Review³ commissioned by the Labour Party.

EEF's report⁴ highlighted the role an independent infrastructure body could play in addressing the problem. Other organisations have also published similar recommendations; however there have been differences in approach on how such an institution should be set up.

Our analysis shows that for any recommendation to work an independent body must be accountable to Parliament not Government, develop its work through wide consultation, take the lead on starting the debate on solutions and have the authority to own the methodology used to appraise projects.

Why manufacturers care about infrastructure

The impact on manufacturers from a lack of strategic long-term decision making on infrastructure is twofold, missed supply chain opportunities and a lower level of business confidence and, ultimately, business investment.

Missed supply chain opportunities

Businesses in the infrastructure supply chain have often missed out on contracts due to the lack of a stable infrastructure procurement market. The decision to invest in skills or capital in anticipation of mooted infrastructure projects is seen as unwise as the current stop-start approach to decision making on infrastructure could result in anticipated projects being cancelled at great cost to manufacturers. A position then made worse by the lack of a forward look on potential projects to fill the gap.

1 Investing for Prosperity: Skills, Infrastructure and innovation, LSE Growth Commission, May 2013

2 The State of the Nation – Transport 2013, Institution of Civil Engineers, June 2013

3 The Armit Review, Sir John Armit CBE, September 2013

4 Transport for Growth, EEF, April 2013

As a result, if projects do go ahead UK supply chains either lack the capability to tender (particularly for larger projects) or are more costly due to the need for accelerated capital acquisition or the need to pay above average wages to attract the required staff quickly.

Both the lack of supply chain capability and the inflated costs are then compounded for future tenders by a procurement culture which places emphasis on past delivery experience or lowest cost. A study into infrastructure delivery costs in the UK found:

“The UK construction market has become the smallest of the big five European countries. Sustained uncertainty and the cyclical nature of infrastructure investment in the UK has contributed, over several decades, to a significant shift from fixed to variable resources, relative to many European contractors, i.e. there is a greater use of subcontracting and less direct investment in construction, the former driven in part by a move to greater specialisation within the supply chain. Eurostat measures of relative capital intensity also show that the UK construction industry is investing less in its operations than France or Germany.”⁵

Over the short term the Government has made some progress in this space, developing a National Infrastructure Plan which outlines the Top 40 projects for completion over a five year period and a longer list of potential future projects as part of an infrastructure pipeline. However, as we've outlined we now need to move from addressing delivery issues to dealing with the front end of the pipeline.

Giving businesses the confidence to invest

Business confidence is a driver of business investment decisions and a subset of this includes business environment conditions such as the quality and availability of infrastructure.

Across countries the realignment of infrastructure is needed to address changes in the structural make-up of the economy. Viewed over the long-term such changes are easy to spot such as the shift from moving freight by canals, to rail then roads or from shipping to air.

This changing process happens within sectors themselves such as manufacturing where more efficient production techniques may lead to changes in infrastructure demand; such changes viewed over the short term are less obvious to spot.

The issue of limited spare capacity is a particular issue in this regard. Lack of spare infrastructure capacity could lead to short term growth being constrained, for example through limited energy supply, increased road congestion or limited spare capacity at airports. Challenges in these areas are already present:

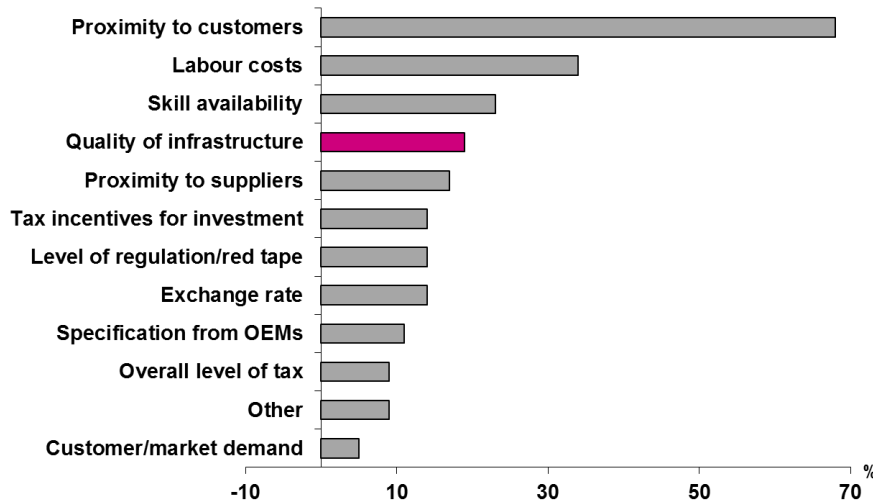
- Ofgem predicts a drop in spare electricity capacity from a margin of 14% in 2013 to just 4% by 2015
- The number of 'on-time' journeys on England's motorway and strategic A-road network fell from a peak of 81.5% in March 2012 to 77.1% in March 2013, before recovering slightly in recent data however still below 79%
- Heathrow – a significant UK air freight hub for both bellyhold and transshipment traffic has no spare capacity

In the short term paying above average costs can secure access to constrained infrastructure, but long term these costs will deter investments. Manufacturers taking a longer view on investments may be more likely to look at other countries where spare capacity exists and new capacity is being planned.

EEF's 2012 investment survey⁶ found that the quality of infrastructure was fourth in the list of most important factors for manufacturers when deciding where to invest and when comparing the UK business environment to other countries a negative balance of -15% was recorded for the quality of transport infrastructure.

Deciding where to locate investment

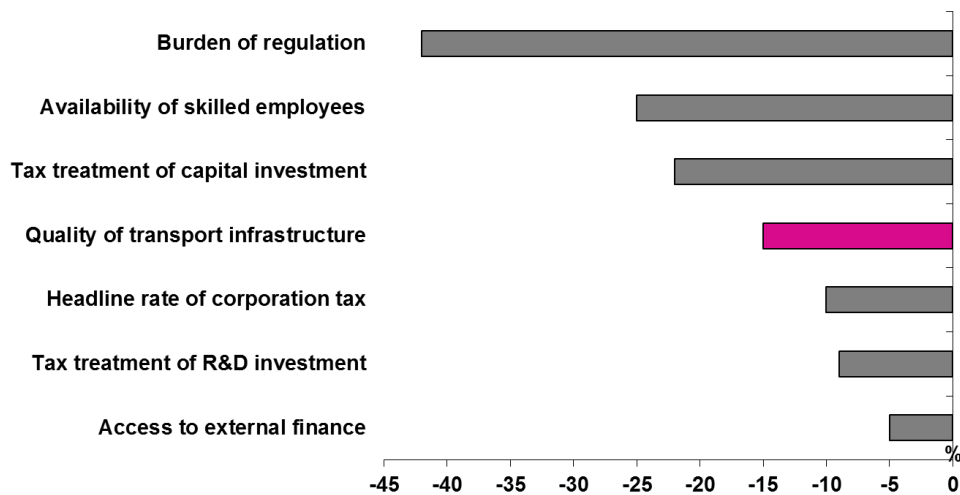
% of companies citing three most important factors taken into consideration when deciding where to locate investment



Source: EEF/GfK NOP Investment Survey

Views of UK competitiveness

% balance of companies citing whether UK better, same or worse than other countries on area



Source: EEF/GfK NOP Investment Survey

⁶ Invest for Growth, EEF, March 2013

More recently, EEF's Make it in Britain survey⁷ showed that for 19% of manufacturers; an improvement in the quality of transport infrastructure would encourage them to expand their manufacturing activity in the UK.

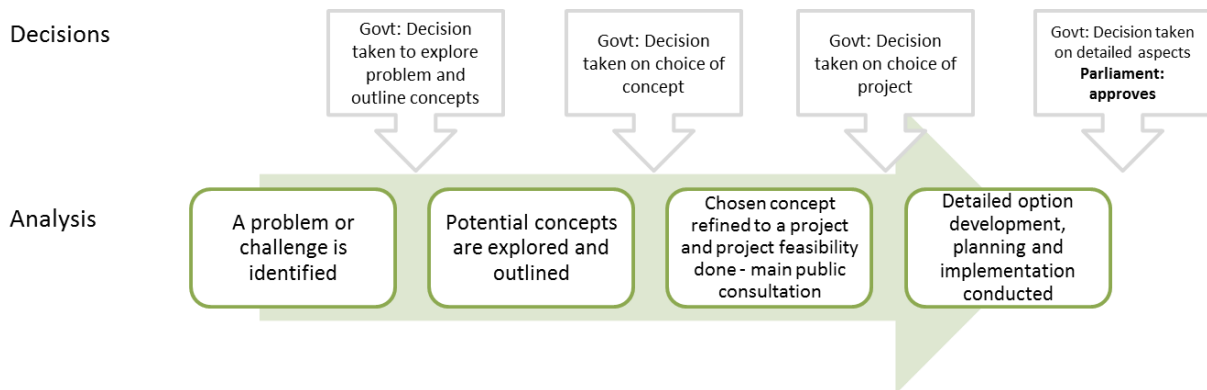
This paper outlines our own approach to fostering long-termism in strategic infrastructure decision making and supporting cross-party consensus. Our proposals have been developed following a desk based review of the evidence, taking into account examples of what works in other countries but factoring in the unique UK context – most notably that around 60% of our economic infrastructure is owned and operated by the private sector.

Our review also highlighted that the UK is not alone in needing to tackle the problem of protracted decision making and policy reversals. However, other countries which were seen as forging a path in this space, most notably Australia, have subsequently seen their solutions (Infrastructure Australia) unable to withstand the heat of a fiercely fought election⁸.

How infrastructure projects are current developed

Our analysis shows that the early stages of projects are the most contentious and once a decision has been made the process then becomes more structured. This situation is not unique to the UK as many studies find similar challenges in most industrialised democracies.

While each project is unique, our analysis shows that the early stages of projects can be broadly categorised into 4 stages, punctuated by the requirement for a political decision. It is at these break points that delay, indecision and reversals are most likely to happen.



Once a decision on the choice of project is taken, projects would then proceed to the post-planning stage, which for Nationally Significant Infrastructure Projects has become far more streamlined in recent years following changes by the Brown and Coalition Governments. These changes include:

- Infrastructure UK, which was set up in the Treasury and is tasked with developing the National Infrastructure Plan and working on the UK's long-term infrastructure priorities and securing private sector investment.
- The Planning Inspectorate (previously the role of the Infrastructure Planning Commission) helps to “streamline the decision-making process for nationally significant infrastructure projects, making it fairer and faster for communities and developers alike.” The Inspectorate assesses planning applications on the basis of National Policy Statements for each nationally significant infrastructure project (NSIP) area, which are introduced by Government and voted on by Parliament.

⁷ Backing Britain: A manufacturing base for the future, EEF, March 2014

⁸“Infrastructure Australia has been all but derailed”, The Australian, February 2011 (<http://bit.ly/1k2RbiC>)

- The Government have also reviewed the Judicial Review system to speed up the process by moving cases to a separate court.
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Problems identified with current structure

Despite the progress made in improving infrastructure decision making, problems do still exist in getting from problem identification to solution, best summarised by one study⁹:

“Analysis may be biased or inadequate, decisions may be affected more by political priorities rather than rational analysis, political priorities may change over time, alliances and pressures from individuals or groups may change, the amount of information is large and may be interpreted and used differently by different parties, the possibility for disinformation is considerable”

Our review of the literature highlighted the following as key barriers to effective project development:

A weak evidence base

A weak evidence base for infrastructure projects along with poor appraisal/accounting methodologies and limited understanding of present asset value allows opponents of a scheme to highlight inconsistencies which causes delays. For example HS2 has seen its business case constantly revised following further analysis and evidence.

In addition, a lack of clarity on the feasibility of future technology and innovation changes allows these alternatives to be trumpeted by some based on inconsistent appraisal methodologies.

Delayed decision making

Controversial decisions are constantly kicked into the long grass as decision makers are not aware of the pitfalls of doing nothing until it is too late. An example is airport capacity in the south east particularly at Heathrow, Britain’s major hub airport, which is already at capacity – decisions on how to avoid this capacity crunch have been avoided for years. As decisions are constantly delayed, space becomes available for strong and virulent opposition campaigns to build resulting in a lack of cross party political support.

A lack of cross-party political support

As there is greater political capital to be gained in opposing a scheme, as a result elections give rise to the prospect of a succession of policy reversals. An example of this is the cancellation of a 3rd runway at Heathrow by the Coalition Government in 2010, or the back and forth decisions surrounding the building of the Channel Tunnel. More specifically however, infrastructure decisions are taken in an environment that is fragmented and lacks a comprehensive strategy.

A fragmented decision making environment

The current approach to developing projects is very siloed, with each area having their own appraisal methodologies; focus can also end up being on what they have to deliver rather than aiming for an integrated and cross-sectoral approach to ensure

⁹ Projects, their quality at entry – and challenges in the front-end phase, Knut Samset in Making Essential Choices with Scant Information, Edited by Terry M. Williams, Knut Samset and Kjell J. Sunnevag, March 2009

the solution delivers the greatest benefits. Additionally decisions are driven by those with the largest influence rather than those with the best solutions.

No overarching infrastructure strategy underpinning projects or looking ahead

Without a strong overarching rationale for a project, the arguments against it can forever be made. Additionally without looking ahead for key milestones, decisions will be taken too late leading to more expensive projects which deliver less.

These barriers manifest themselves within each of the four project development stages we have outlined. Our recommendations below set out how a new institutional framework can help to overcome these and ensure, as much as possible, decisions are taken in a more timely way based on the strongest evidence.

Our recommendations

We recommend the creation of a UK Infrastructure Authority with oversight provided by an Infrastructure Advisory Board.

Infrastructure Advisory Board

The Infrastructure Advisory Board will be the public face of the work of the UK Infrastructure Authority and the body responsible for providing oversight and governance. Set up as a Non-Ministerial Government Department, it will be directly accountable to Parliament through a Chair. This will give it the independence it requires to speak with authority on matters within its remit.

In line with the approval process followed for such roles, the Chair would be appointed following an open competition and parliamentary approval through the Public Administration Select Committee. Alongside the Chair, the Board will comprise the Director General of the UK Infrastructure Authority and the CEO of Infrastructure UK along with 6 additional non-executive members to provide a board of 9 members.

Similar bodies set up as a Non-Ministerial Government Department include the UK Statistics Authority, the Competition and Markets Authority and HMRC.

UK Infrastructure Authority

The UK Infrastructure Authority will be set up as a Non-Ministerial Government Department directly accountable to Parliament through the Infrastructure Advisory Board. This structure allows it to maintain its impartiality while also having the flexibility to work with Government departments in a confidential manner where required.

This approach would be similar to the Food Standards Agency or the Office for National Statistics, which serves as a Non-Ministerial Government Department beneath the UK Statistics Authority.

Key roles, responsibilities and outputs of the UK Infrastructure Authority

Looking ahead and outlining the analysis of need through a **National Infrastructure Assessment**

This would be the primary output of the UK Infrastructure Authority and would serve as the underpinning document used in their assessments of the impact of infrastructure projects and proposals.

Every five years, the UK Infrastructure Authority will be tasked with developing a new National Infrastructure Assessment which would look ahead at economic

infrastructure requirements and asset conditions across a 10, 20 and 50 year horizon at both national and regional levels.

It would identify future challenges and trends, and would also outline when decisions will need to be made. The National Infrastructure Assessment would be developed through public consultation.

*Standardising the assessment of projects through a **publicly available project appraisal framework***

The UK Infrastructure Authority would be required to develop a project appraisal framework; these would be publically available for each nationally significant infrastructure project (NSIP) sector and be developed through public consultation. The purpose of this framework will be to ensure a consistent evaluation and assessment methodology is used to appraise each project and proposal.

The framework would outline the factors which would be used in assessment such as how costs are calculated, environmental considerations, economic impacts etc. along with how the project would impact on the needs outlined in the National Infrastructure Assessment.

*Maintaining the debate on challenges and showing progress (or lack of) through an **annual National Infrastructure Assessment progress report***

The UK Infrastructure Authority would provide an annual progress report. This would provide a holistic view on recent changes within each NSIP (e.g. new projects which have been approved, changes to project schedules) to give the aggregate effect on the measures which form part of the National Infrastructure Assessment.

The annual progress report would also provide a list along with an assessment of proposed solutions to challenges outlined in the National Infrastructure Assessment. This would take a similar approach to the Office for Budget Responsibility's Fiscal Sustainability Report.

The purpose would be to show what progress is being made in the development of infrastructure projects and concepts, and highlight the viability of solutions which may have been proposed.

*Provide Parliament with neutral evidence for scrutiny with an **impact report alongside legislative measures relating to infrastructure***

With any legislative measure before Parliament which directly impacts on infrastructure assets, the UK Infrastructure Authority would be required to provide an assessment alongside this measure of how it impacts on the National Infrastructure Assessment.

This could include the Second Reading of Bills, tabling of new National Policy Statements (which sets out Government policy) in each NSIP area. The purpose would be to support Parliament in its scrutiny role, enabling it to understand the impact of infrastructure proposals.

Benefits of these recommendations

Our recommendations strike the right balance between strengthening Parliament's role while still allowing Governments to take action. Fundamentally they will increase trust in the analytical process used to evaluate infrastructure projects and debates on 'need'.

They will also compel action where required, by warning of the outcomes of inaction. Decisions will continue to be made by those democratically elected to do so, but will be supported by more robust and sound analysis to minimise project reversals.

Our recommendations would **provide an overarching framework** for project proposals (i.e. their impact on future challenges as outlined in the National Infrastructure Assessment), while leaving the Government of the day to set out their own **strategy through National Policy Statements** (which the UK Infrastructure Authority would also provide an assessment of).

Our proposals would **bring coherence to the decision making environment** by creating a focal point for project assessments and by allowing those with an interest to put forward their project ideas and have these assessed on a level playing field.

Through providing more time for debate by identifying needs and potential solutions earlier, our proposals should allow political parties to have their projects assessed regardless of whether or not they are in Government and allow a mandate to be received for projects to go ahead. The National Infrastructure Assessment process will add between 5 and 15 years to the conception stage of infrastructure projects, time which is currently wasted as the debate is disorganised.

This mandate (along with the additional time for debate) could **help to facilitate cross-party political support** and would help to minimise the stop-start approach to project development.

This additional time for concepts to be explored would also help to **encourage more timely decisions**. The National Infrastructure Assessment, which would outline when decisions would need to be taken to address the future challenges identified, would provide a clear timeline for when decisions would need to be made.

Finally our proposals will **strengthen the evidence base for projects**, as the National Infrastructure Assessment would provide a consistent appraisal methodology, open consultation and cross-sectoral solutions.

Questions and Answers

What evidence is there that infrastructure provision supports competitiveness and growth?

Such a link has long been proven by, among others, organisations such as the World Economic Forum – most notably in their annual competitiveness report. More specifically EEF's 2012 investment survey found that the quality of infrastructure was fourth in the list of most important factors for manufacturers when deciding where to invest, well above issues such as the overall level of tax, the exchange rate and the level of regulation.

Additionally, EEF's 2013 Make it in Britain survey showed that for 19% of manufacturers; an improvement in the quality of transport infrastructure would encourage them to expand their manufacturing activity in the UK as opposed to overseas.

Is the challenge of making and sticking to strategic decisions on infrastructure unique to the UK?

While some think Britain is alone in facing this challenge our analysis shows this is a problem for the vast majority of industrialised countries. Britain is unique in that around 60% of our economic infrastructure is in the hands of the private sector so a

unique set of circumstances are required for project delivery. However, the early stages of an infrastructure project – problem identification, concept development and analysis are all challenges faced by countries from Germany, Australia, France and the USA.

Will the creation of the UK Infrastructure Authority increase the democratic deficit?

Our proposals are not intended to supplant the democratic process but to strengthen it by increasing the time available for debate, highlighting challenges on the horizon in advance, and therefore allowing parties to seek a clearer mandate for their chosen preferences to address these challenges.

The UK Infrastructure Authority would not make decisions on which projects should and shouldn't go ahead but would set out the impact of each project on addressing challenges, based on the range of options received.

Is it possible to move policy analysis to an independent body?

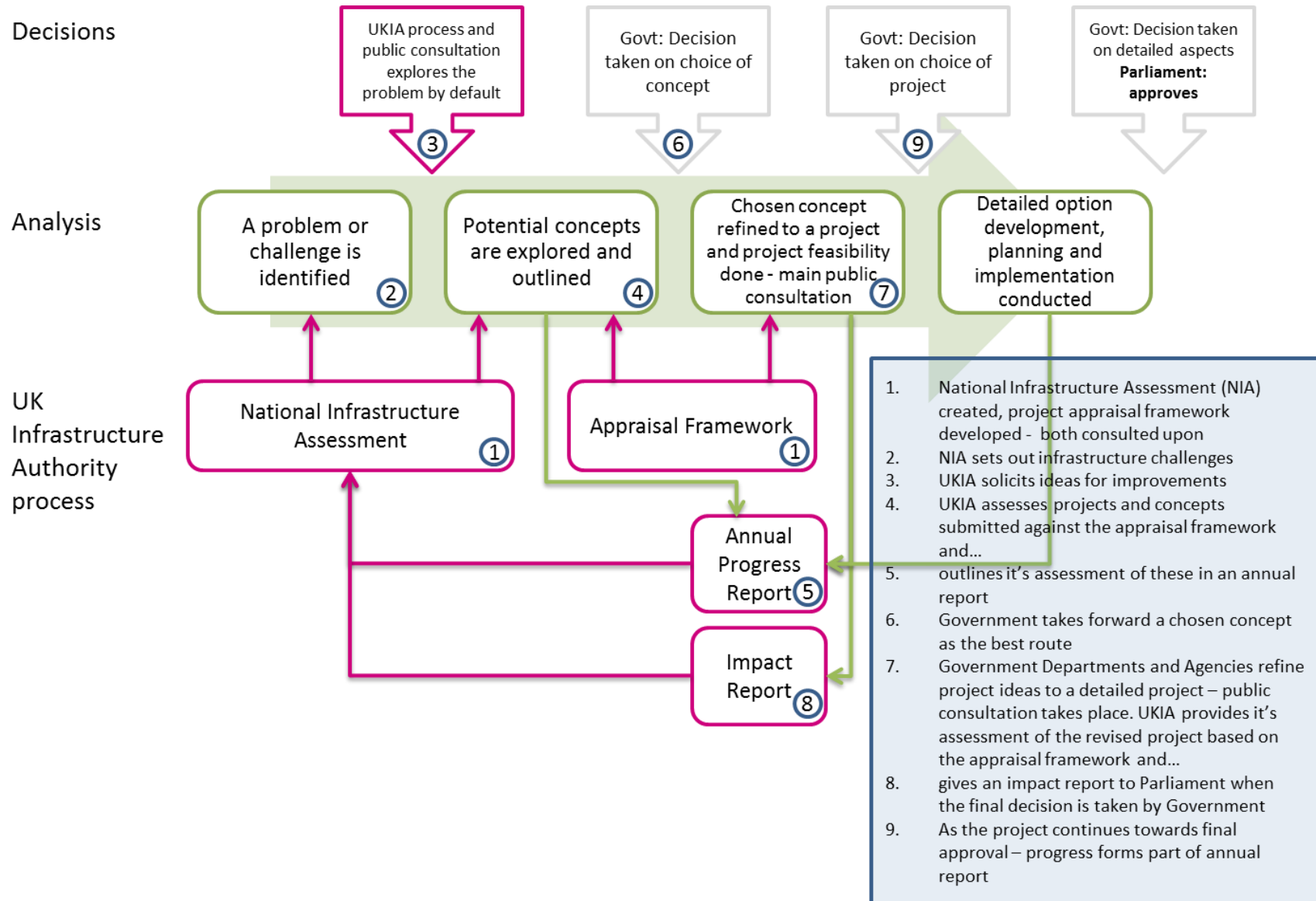
Several institutions exist which provide a similar functionality to Government and Parliament including:

- *The UK Statistics Authority and its agency the Office for National Statistics which is the undisputed source and guardian of the use of official UK statistics*
- *The Committee on Climate Change which advises on the five yearly carbon budgets and reports on the impact of individual Government policies in meeting the 2050 carbon reduction target*
- *More recently the framework used by the Airports Commission, which had a strong focus on public consultation, regular updates and clear milestones for action*
- *The Office for Budget Responsibility which has a duty to examine and report on the sustainability of the public finances through independent fiscal and economic forecasts and*

Will such a radical proposal work?

Establishing the UK Infrastructure Authority is a modest proposal which builds on existing foundations. It not only takes forward the approach started by the Airports Commission, applying this to other infrastructure sectors, but compliments the reforms made to infrastructure delivery undertaken by the Brown Government and the Coalition Government.

Diagram: How our proposals will strengthen the identification and analysis of UK infrastructure projects



FOR FURTHER INFORMATION CONTACT:

Ms Lee Hopley, Chief Economist, lhopley@eef.org.uk

Chris Richards, Business Environment Policy Adviser, crichards@eef.org.uk

EEF, the manufacturers' organisation
Broadway House
Tothill Street
London SW1H 9NQ
020 7222 7777

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