

# Public Administration and Constitutional Affairs Committee

## Oral evidence: [The Government's management of its major projects, HC 125](#)

Tuesday 9 June 2020

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Members present: Mr William Wragg (Chair); Ronnie Cowan; Jackie Doyle-Price; Rachel Hopkins; Mr David Jones; Tom Randall; John Stevenson.

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### Witnesses

**I:** Professor Henry Overman, Professor of Economic Geography, London School of Economics; and Tom Thackray, Director of Infrastructure, Confederation of British Industry.

**II:** Sir John Armitt CBE, Chair, National Infrastructure Commission; and James Heath, Chief Executive, National Infrastructure Commission.

### Examination of witnesses

Witnesses: Professor Overman and Tom Thackray.

Q1 **Chair:** Good morning. Welcome to another virtual public meeting of the Public Administration and Constitutional Affairs Committee. I am in a Committee Room in Portcullis House with a small number of staff to facilitate the meeting, suitably social distanced from each other. My colleagues and our witnesses today are in their homes and offices across the country. The Committee is extremely grateful to both panels of witnesses for making time to appear before us today.

Could I ask the first panel to introduce themselves for the record, please?

**Professor Overman:** Professor Henry Overman, I am a professor at the London School of Economics, Director of the What Works Centre for Local Economic Growth and the Research Director of the Centre for Economic Performance.

**Tom Thackray:** Tom Thackray from the CBI, I am the Director for Infrastructure and Energy Policy there. CBI is the UK's largest business



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representative organisation, which speaks for the largest FTSE companies alongside small and fast-growing start-ups in all sectors in all parts of the UK.

**Q2 John Stevenson:** What is the relationship between investment in major projects—such as road, rail or broadband—and economic development and social prosperity?

**Professor Overman:** That is a good question. Of course major infrastructure projects have the capacity to lead to marked improvements in productivity and economic performance. Major infrastructure obviously underpins the economic performance of the country as a whole and of individual places.

The difficulty with your question is deciding, when we look at a specific major project, what the impact of that major project will be on the economy as a whole and on different nation economies. We know that transport is a very important component for our national prosperity, but it is when we come to making specific decisions about specific major projects that the devil is in the detail and it gets much harder to assess what the impact would be.

**Q3 John Stevenson:** Do you think it is observable, the link between public spending on infrastructure and productivity?

**Professor Overman:** I think it depends on the location. If you take, say, any of our major cities where congestion is an obvious issue, it is hugely important that when we invest in new projects there that there will be a clear link through to improved productivity and performance. As we go out to communities where congestion is not such an issue, there will still possibly be productivity benefits from investing in infrastructure, but quite a lot of the challenges those places face are nothing to do with the infrastructure that they have in place. Therefore, the link depends on where we are looking at and the kind of projects that we are looking at. Does that help answer your question?

**Q4 John Stevenson:** Yes, to a certain extent. Mr Thackray, what are your views on my first question?

**Tom Thackray:** From where the CBI stands, there is a demand side and a supply side benefit for major projects. When you are looking at infrastructure there is an undoubted benefit of spending money on construction that goes beyond that initial spend. Every £1 spent on construction generates £2.92 for the wider economy, which is just on the demand side. On the supply side, what businesses value from major projects, particularly infrastructure, is the widening of labour markets, the improvements in efficiency and travel, and the ability to facilitate competition and collaboration between different sorts of businesses. Therefore, major projects can play a fundamental role in economic prosperity, as far as we see it.



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But it should be noted that, in the Major Projects Portfolio, economic prosperity is not always the driving factor. Increasingly, I think businesses are conscious that they have a role in providing things outside of that, including social value parameters such as contributing to reducing emissions or issues of fairness and equity across the country.

**Q5** **John Stevenson:** I take your point on that secondary issue but, on the strict link between public spending and productivity, do you think that link is observable?

**Tom Thackray:** I think it is observable. I agree with Professor Overman's comment that you need the right project in the right place, and the ability to plan, procure, contract manage and deliver these projects has a bearing on the observable productivity benefits in the longer run.

**Q6** **Tom Randall:** A question to both of you. How does the state of UK infrastructure compare with other countries, and how does that translate into the relative productivity of the UK?

**Professor Overman:** I am going to point to the research of others here. This is not something that I have looked at personally, but I am convinced by the analysis we have seen. If you take, for example, the LSE Growth Commission, published in 2013, the commission makes it quite clear that we underinvest in our transport infrastructure, that our infrastructure tends to underperform and that there are serious consequences from this for underperformance of the UK economy as a whole.

**Tom Thackray:** The question is obviously rather broad, thinking about all types of infrastructure and comparing them internationally. It is obviously a mixed picture. Starting with the more favourable comparisons, if you look at the recent performance on investment we can see that, as a proportion of our economy, investment in infrastructure has grown over the last 10 to 15 years. We had notable successes in things like the power system and—it is all over the news today—how long we have been without coal generation in our power stations, which is partly because of the policies and the investment we have had in that part of the infrastructure system. We have more reliable utilities than many parts of the world. From an industry perspective, we have world-leading finance, design and advisory practices in the infrastructure delivery space. So there are definitely things we can be positive about when it comes to our infrastructure performance.

On the flipside of that, I think for overall quality of infrastructure we are kind of middle of the pack. If you look at the World Economic Forum analysis, which is based on an international business survey, we were 11th globally for the quality of our infrastructure. Connectivity of transport, particularly outside of London, is noted in all of our business surveys as deficient and a drag on productivity for businesses outside of London. Notwithstanding some improvement in delivery recently when it comes to public projects, there are still too many that are running over budget or over time so we need to improve our record there.



Q7 **Tom Randall:** You have touched on this already, but how can we calculate the productivity of public spending on infrastructure and distinguish between the stuff that is productive and the so-called white elephant stuff?

**Professor Overman:** That is a tricky question. Obviously at the moment we rely on the Treasury Green Book principles to guide decisions on this, you will be aware there is an ongoing debate about the extent to which that properly captures the benefits. I am happy to go into the details on that debate if it is helpful, but let me not touch on the details now. We basically use the appraisal to try to figure out what the economic benefits are going to be. There is a large focus in there on the direct user benefits. More recently, since the Eddington study, there has been a focus on trying to capture the kind of things that Tom talked about, whether we can capture the productivity benefits that come from improving the accessibility of firms to their suppliers, customers and workers. I think we now do a slightly better job at that than we did.

The real problem comes when we start to try to assess the more dynamic impacts. Once we get to the major projects, which John Stevenson mentioned in his first question, we start to get into difficult challenges around what we really think the impact of those will be on investment by private sector firms, on employment decisions, on productivity. That is proving a difficult challenge. My own view on how we are going to have to get better at that is not in the narrow business case part of the Green Book, but is in being much more rigorous in the assessment of the strategic case for transport projects and the option generation at a far earlier stage.

I think it is a very valid question to ask. We are struggling, particularly when it comes to the larger investments, to carefully distinguish between projects that are going to be good and projects that are going to be bad for productivity.

The one thing I will finish with—which is not a technical point but is what I think needs to guide this—is that we need to be thinking hard, I hinted at this in my initial answer, about whether or not transport infrastructure is the problem. White elephant projects come when we over claim for the transformational impact of projects that are not based on meeting reasonable challenges that the local or national economy face, but instead are sold as being a revolutionary, transformational project that will radically change around the fortunes of an area or of the economy as a whole.

**Tom Thackray:** There is bit of a myth around infrastructure proposals and delivery that you can propose on day one of the initiation of the concept of the project and that the plan will remain the same over the entire duration of the major project. Actually these things get reviewed and revised, and the outcomes that you are seeking to deliver might change over time. I think we get locked into viewing these major projects in very restricted terms because of the way they have been sold at the outset. We should be much clearer that these are major and complex projects and they will flex over time. There may be opportunities to increase benefits through



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engagement with local stakeholders and integration with other networks, but we do not always do the best job at engaging the market to explore some of those options or engaging the local economy and local stakeholders to ensure that they are fully exploited.

**Q8 Chair:** Professor Overman, did you have any examples in mind when you talked of so-called transformational projects that have perhaps been overhyped?

**Professor Overman:** I am always a little wary about putting my head above the parapet on this particular topic. I think we have seen, for example, bold claims about what the Humber Bridge would do for the local economy. We see claims about some of the tram systems and what the impact of those might be. The one that is obviously occupying us most at the moment is whether or not we believe the claims around High Speed 2 and the impacts that will have. There are three examples for you.

**Q9 Ronnie Cowan:** At the outset you were talking about the UK Parliament but, of course, we have devolved nations in there as well. When we are talking about UK Government spend, how does that translate through to the devolved nations?

**Professor Overman:** Sorry, was that question addressed to me?

**Ronnie Cowan:** Yes, to either of you. I am worried we are talking about the UK here, and a lot of the questions and answers we have had so far are not about the UK but are about England.

**Professor Overman:** I don't personally know what the allocation of expenditure from central Government to the devolved Administrations looks like on transport. I don't know if Tom does.

**Ronnie Cowan:** In terms of allocation of what major projects are going to be taken on.

**Tom Thackray:** Obviously transport, which is the focus of much of this, is a devolved issue and projects are progressed in Scotland, Wales and Northern Ireland based on the priorities of those particular Governments. The principles we are talking about here in terms of appraisal, engagement and delivery are consistent if you look at the experience in Scotland, Wales and Northern Ireland as well. Yes, we are talking about the experience with the Green Book and how that is progressed in Whitehall, but I think the principles we are discussing are consistent.

**Q10 Mr David Jones:** Professor Overman, levelling up the UK is expressed to be one of the key objectives of this Government. Is there a general understanding of what is meant by "levelling up"?

**Professor Overman:** I think the simple answer to that is no, unfortunately. It is unclear what people mean. What I would say is that every Government comes in with a version of this aspiration.



I will offer too—because I think it will be useful for guiding the conversation that we have about the role transport might play in this, which I assume is where we are going—that one way of thinking about it is that we take some measure of economic performance, like income, GDP per capita or wages, and we try to get that the same everywhere by bringing up the regions that are performing more poorly. There are all kinds of problems with that being our guide, partly I do not think it is achievable but also it does not really address the fundamental problem. I prefer to focus instead on the opportunities that people face depending on the part of the country in which they live and to think about how what we are doing is improving opportunities for people in different parts of the country. Then we get on to thinking about how we help improve outcomes for people who are currently living in disadvantaged communities. That way of thinking about levelling up will get us to a more sensible set of decisions about the role that specific policies will play.

**Q11 Mr David Jones:** How should we measure progress in that regard?

**Professor Overman:** What we could be doing is looking at the outcomes for, say, more disadvantaged individuals. If we look across the country at households that we know are disadvantaged, and we see that we have a large concentration of those disadvantaged households in some of our, say, coastal towns, then we can look at whether what we are doing is improving lifetime outcomes for those disadvantaged households in those disadvantaged communities. I think that is a much better guide to policy than focusing on some high-level GDP per capita and so on.

That is not to say that spatial disparities in productivity, labour market performance and so on do not have an important role to play in there. However, if I was focusing on success, I would be thinking, “What am I doing to improve outcomes for the disadvantaged?” which is the sort of inequality, and then, “What am I doing to improve outcomes for households right across the income distribution, wherever they live?” and that is the productivity/economic performance part of the levelling-up puzzle.

**Q12 Mr David Jones:** What sort of things drive the spatial disparities that you have referred to?

**Professor Overman:** Many factors play a role, and the most important by far is the distribution of households in terms of education and skill levels. At the lower bound, we think about 50% of spatial disparities in the UK are explained by compositional differences in education and skills of the underlying population. The upper bound estimate would be something as high as 80% of the disparities being caused by underlying composition to do with education and skills. We know that people who are more highly educated get a very large wage premium. Therefore, somewhere like London, which has I think around 65% of its population with a degree, is going to do better than Manchester, for example, which has around 40% of its population with a degree. I think that is important.





Obviously other factors start to play a role in this. Infrastructure helps drive the underlying productivity of a location, which would play an important role. Others have highlighted investment that we do in R&D and other factors that drive local economic performance. I am not saying those factors are not important at all, but the fundamental thing that impacts spatial disparities is these differences in educational outcomes.

The final point I would make, of course, is that infrastructure in itself can have a pretty big impact on where people are going to live and the composition of local labour markets. One way to achieve levelling up will be to get those people with degrees and so on to spread themselves out more equally across the United Kingdom, and transport might play a role in that. I am personally less convinced that is a very good way of improving outcomes for people at the bottom of the income distribution. That is why I am a bit wary about that way of going about levelling up.

**Q13 Mr David Jones:** How much of this is historical? I was interested that you used as your comparators London, on the one hand, and Manchester, on the other. Manchester, of course, was a great industrial city of the 19th century and the early 20th century and was afflicted by de-industrialisation in the latter part of the 20th century. Do these factors come into play? Again, for example, you mentioned coastal towns. Has the demise of the British holiday resort had anything to do with it?

**Professor Overman:** There are two pretty big structural shifts going on that help explain what is happening in terms of spatial disparities in where people are living. You have identified one of them, which are the large structural shifts that we have seen in the structure of the UK economy. Coastal towns have suffered from us, at least until this year, holidaying abroad much more. Let us wait and see what happens with that. Also, much more fundamentally, there is the shift away from manufacturing towards services.

The other strong underlying market factor that has been at play is technological change, which has increased demand for medium to higher-educated people and has radically reduced demand for people who are lower educated or have fewer skills. Those are the two underlying factors that I would point to, and the way they are playing out unevenly results in the spatial disparities that we are seeing. Does that help?

**Q14 Mr David Jones:** Yes, thank you. Mr Thackray, can we talk about the UK's infrastructure stock? Would you say there is a variation in infrastructure stock across the UK?

**Tom Thackray:** Yes, absolutely. What we pick up from our surveys is that there are certainly varying levels of satisfaction among the business community about the adequacy of the infrastructure they use, be that digital infrastructure, transport infrastructure or other types. We also see it in the data around working practices and patterns. Looking at the agglomeration around London, travel-to-work habits and reliance on the public transport network relative to other parts of the country—where there



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is still a huge demand for road use and a huge demand on the car—is obviously important not just from a productivity and business perspective but also from an emissions and sustainability perspective as well. We do have differences in how infrastructure is distributed and business satisfaction across the country.

**Q15 Mr David Jones:** Is there an observable relationship between the variation in infrastructure stock and economic performance?

**Tom Thackray:** I think there is. I would agree with Henry's point about the skills agenda being the most fundamental parameter that needs to be addressed to improve life chances in different parts of the country. Infrastructure and innovation systems do play a role, but most of the evidence suggests that getting skills distributed, getting the right skills in different parts of the country, is the most fundamental thing you can do.

**Q16 Mr David Jones:** Are there any lessons to be learned from working patterns that have been adopted as a consequence of the coronavirus outbreak, with more people working from home?

**Tom Thackray:** It is quite early to say exactly what the long-term trajectory will be in terms of use of infrastructure in the future. Anecdotally we are picking up from our members that there will definitely be an increase in flexible working and an increase in working from home, but we are going to have to wait and see the extent of that over the next 18 months or so. It is likely we will see that the full-time Monday to Friday 9 to 5 will be a thing of the past for a lot of people, which will obviously change the business model for infrastructure operators and the business case for infrastructure as well. We have to be aware of that and we have to try to accommodate it in policy over the next year or so.

**Professor Overman:** If you do not mind, Chair, I will loop back for one second to the differential expenditure on infrastructure and refer back to something that David Jones said. One of the things we need to be careful about here is that there is a lot of concern at the moment about the distribution of expenditure shares across different regions. However, those shares really started widening out in 2008-09 in terms of capital expenditure, at around the time that Crossrail started and, of course, Crossrail is not completed yet. We need to be a bit careful about attributing cause and effect here. London's superior economic performance far outweighs the sort of imbalances we are seeing in the forward pipeline of projects. It is important to think about that when we are thinking about the relationship between infrastructure and development.

The other point to briefly make on that is that it is terribly misleading to compare London to other parts of the UK and not look at Manchester relative to the rest of the north-west. The big cities have far higher expenditure shares because public transport is more expensive.

On your question of whether we are going to see radical changes, I agree with Tom. I think it is too early to say. We are seeing a lot of wild





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predictions. The one thing, for certain, which is not going to happen is large numbers of us moving to the countryside, for the simple reason that we do not have very many houses in the countryside and we do not build very many houses in this country. We are far more likely on the residential side to see any impacts playing out in terms of relative prices and desirability of locations.

There is a deeper conversation to be had on what will happen to commercial real estate, but I feel that might take us slightly too far away so I will not comment on that now.

**Q17 John Stevenson:** Professor Overman, given what we have been discussing, how do you think Government can deploy public funds through infrastructure projects to reduce spatial disparities?

**Professor Overman:** I will give a two-part answer. If we are focusing on economic performance, we need to think about addressing the most pressing infrastructure needs from an economic point of view. I think that, to a large extent, those still occur in our major cities, not just London but Newcastle, Manchester, Liverpool, Birmingham, Sheffield, Bristol. The scope for productive infrastructure investment that will bring benefits to the surrounding regions, the projects that will deliver a big bang for the buck, are in those areas.

I was careful to caveat that by saying it is economic performance. I think there is a very strong public service case for thinking about other aspects of infrastructure expenditure and what they are doing in terms of narrowing spatial disparities. I will just take one example. I think, for example, the benefits of broadband to rural economies in terms of their productivity is probably easily overstated, in terms of being a thing that is going to cause a huge uplift in the productivity of those areas. But, as the current crisis is demonstrating, there is a very significant public good argument for thinking about broadband provision to our rural communities and what that does in terms of spatial disparities.

We need to be careful about what objective we are trying to achieve with the expenditure. If we are trying to achieve economic, we have to be brutal in our focus on the returns to the infrastructure investment and that does make the case for the infrastructure investment that we are going to do to be concentrated in the places that really need it. However, if we are interested in the more public service aspects of this, there is a very important discussion to be had around broadband, bus services and rail services out to communities that are not served.

**Q18 John Stevenson:** Mr Thackray, what sort of investment do you feel is needed in infrastructure that is likely to reduce inequalities in economic growth between the regions?

**Tom Thackray:** I would concur with what Professor Overman suggested. The highest productivity benefits are usually congestion-alleviating projects in urban areas, so for economic benefit those are the ones that



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can be prioritised. Obviously you need to be clear on what outcomes you are prioritising. If economic performance is not the first outcome, it provides scope for wider infrastructure spend.

I make the point that, in terms of how this is taken forward at the moment, a major gripe of businesses, particularly outside London, is that when funding and powers are devolved to local areas, it is done on a short-term basis with small pots of money and highly prescriptive criteria around them that make it very difficult to join up those funds and to leverage in money from the private sector as well. The capability of local infrastructure delivery is somewhat stymied by the way that money has been devolved in the past.

**Q19 John Stevenson:** I am going to come to that question in due course. I am just interested in what infrastructure projects do you think would reap the greatest benefit in terms of reducing inequality between regions. You touched on transport infrastructure within cities, what else?

**Tom Thackray:** We are big fans of high-speed rail. We think High Speed 2 provides great benefits to regions across the UK. It is supported by members across all the English regions and, in fact, across the UK. We think it provides extra capacity on our rail networks that are obviously oversubscribed. It has the potential to reduce carbon by reducing reliance on road freight, for example. It also unlocks potential regeneration and additional infrastructure spend across those regions, particularly if the funding and powers are devolved alongside the delivery of that project.

**Q20 John Stevenson:** It is very interesting that both of you have primarily touched on transport infrastructure: rail, road and so on. If I were to throw to you—particularly Mr Thackray, because of your interest in energy—a nuclear plant being built in west Cumbria, would that not reap huge economic growth for the region and improve the performance of the region in a positive way, or is that not the sort of infrastructure we should be looking at?

**Tom Thackray:** You need to look at energy generation as a system and look at what kind of mix we need to improve security of supply and to improve sustainability performance. For the CBI, we have said that we need to produce more nuclear power and that we need at least one new nuclear power station to replace the generation that is coming offline in the coming years.

**John Stevenson:** Sorry, what I am really getting at is looking at projects other than transport that could have economic benefits and that are funded by Government.

**Tom Thackray:** I would say that the economic benefits of building new power generation are clear to see. That is not just nuclear power, if you look at the regeneration impact of the offshore wind industry in parts of the north-east and on the east coast of Scotland, you can see that there are huge amounts of investment in places that may have not fared quite so well in recent years.



Q21 **John Stevenson:** Professor Overman, do you have any observations on non-transport infrastructure funded by Government?

**Professor Overman:** I think it is a difficult challenge for Government. For example, with the energy system, we need to have our primary objective being about the performance of the energy sector and what it delivers to people in terms of their energy needs. After that, I am fairly relaxed about the criteria we should be using to think about where exactly we make that investment.

The thing I would say is that probably for something like a nuclear power plant, it is predominately the direct employment benefits that you are going to get, and I think we can work through what they are. There will be direct employment benefits and there will be multiplier benefits on to other areas. Those can be hugely important for communities that have very few employment opportunities, but I do not think they do much over and above those direct employment effects. I am distinguishing that from other kinds of investments that we might make that drive productivity improvements across many businesses in the local area, whether or not they are directly connected to the specific project that we are talking about. Those direct effects, it is important we consider them and I think they are considered. However, they peter out at some point. I do not know how many people are employed at a nuclear power plant, but a rough estimate is that you take the direct jobs and multiply them by one, maybe 1.25, to give you the indirect jobs. Therefore, if we create 1,000 jobs in a power plant, we create another 1,000 or 1,250 jobs locally. I am not sniffing at that, if I was in an area with limited employment opportunities I would think that was hugely important, but it is not going to be a radical turnaround for large parts of that community.

Q22 **Ronnie Cowan:** To follow on from that last point, if we are looking at renewable energy then the location of that renewable energy will be dictated by what it is. You can build a nuclear plant almost anywhere you want, but if you are looking at tidal energy, wind, rain, hydro then the natural geography of the land will dictate where that has to be located. That brings me to my original question. Boris Johnson once said, "A pound spent in Croydon is of far more value to the country", for a strict utilitarian purpose, "than a pound spent in Strathclyde". Was he right to say that?

**Professor Overman:** Out of context, I think it is impossible to judge. It depends what the policy objective is for the pound of expenditure.

Q23 **Ronnie Cowan:** We are talking about the benefit to the areas and the regions of the United Kingdom, so is the money not better spent outwith London so we can regenerate those areas—that, as was pointed out earlier, suffered through de-industrialisation—by re-industrialising them in the right manner?

**Professor Overman:** It would depend on what policy objective we are trying to achieve. I do not think Boris Johnson was right to suggest that we would always want to spend a pound in Croydon over a pound in



Strathclyde. However, I do not think it would be right for me to sit here and say that the reverse is true, that we should always be spending a pound in Strathclyde over a pound in Croydon, which is just the same error made in two different directions.

**Ronnie Cowan:** Yes, I agree with that.

**Professor Overman:** There is a serious point here, which is that I do not think these debates about levels of expenditure are very helpful. I think we should always be focusing on what we are trying to achieve with the expenditure. Debates about the level per se just suck us into a set of arguments that I do not think anyone really wins from.

Q24 **Mr David Jones:** Briefly on non-transport infrastructure, we have not made much mention yet of digital infrastructure. Of course, the Government have a commitment to roll out gigabit-broadband across the country over the next few years. How transformational do you consider good-quality broadband is?

**Professor Overman:** I think the answer will vary by place. What we know is that the impact of high-quality broadband is going to be largest in urban communities for more highly-educated workers working in the service industry. Rolling out good broadband is hugely important, but it is important that we recognise that rolling it out might well exacerbate some of the spatial disparities we have seen because it is a technology that predominately benefits urban, higher-educated service workers.

I hinted at the fact that I think the argument for rural communities—don't get me wrong, there is clearly a benefit. If you were trying to run a service business in a rural community—take at the moment, but just more generally—and you were struggling with poor broadband, this could be transformational for that individual business. It is when we aggregate up for the community as a whole that those transformational arguments start falling apart.

As I said in answer to a previous question, I do not think the transformational economic arguments are the only arguments we should be considering here. I am always reminded a little bit of the arguments we had about whether or not we should bring electricity to farms in the 1930s, 1940s and 1950s. I do not think those were necessarily economic arguments, but it was a hugely important public good to be thinking about that provision, similar with the Post Office.

**Tom Thackray:** I think the application of digital connectivity is likely to change as the technology requirement changes. While I agree with Professor Overman's point that the benefits have largely been concentrated in the services sector so far, I think with the advent of more artificial intelligence applications and the application of the internet of things in manufacturing settings, there is more demand and more requirement to futureproof our infrastructure when it comes to digital connectivity to ensure that factories of the future can connect.



Q25 **Mr David Jones:** In terms of levelling up?

**Tom Thackray:** It is an important point. It is a good example of where the market and the public sector have collaborated fairly well, with the market delivering where there are economic returns to do so and where there is a co-investment proposition for that final third that should deliver the returns and deliver the ambitions of gigabit connectivity by 2025.

Q26 **Chair:** If I could play the devil's advocate for a moment to our two witnesses, is there not a risk of public funds being spent to little effect on projects in geographical areas that are not growing? If so, what can the Government do to counterbalance that?

**Professor Overman:** There is a risk that levelling up becomes an argument that we use to justify projects that will not have a very large local economic impact. I am not saying that is where we are with expenditure at the moment, but I do think we need to continue to be critical about the claims that are being made for the impact of specific projects. There is a lot of scope for wasting a large amount of money on projects that do not deliver significant economic benefits to the communities that we are trying to help. I think we need to be very, very cautious of that going forward.

That comes back to something that I think David Jones said, which is that we need to be clear about what actually is the levelling-up objective, and then we need to have a sensible discussion around the set of projects that might feasibly help deliver on those levelling-up objectives. There is always a tendency that, if we cannot get the economic case to add up, we just make a plea to the fact that it is going to be incredibly transformational. That is a big danger in terms of wasting a large amount of money. The trick, of course, is that some projects could be truly transformational at the local level. We need to think carefully about how we distinguish between those two things. However, I think it is a very real concern that we could end up wasting a lot of money on projects that do not really have the impact that we hope.

Q27 **Chair:** I wonder, Mr Thackray, if you could develop that a bit further and consider how we should be targeting funds perhaps to regional hubs. Manchester has been mentioned, and I declare my interest as a MP for that area, so we will stick with Manchester as an example. What do you think the risks of such an approach might be?

**Tom Thackray:** Sorry, for clarification, the risks of devolving money—

**Chair:** The risk of looking to target funds at regional hubs, if you want to bear that in mind with the context of perhaps satellite towns around those larger cities.

**Tom Thackray:** There are risks associated, I suppose, with providing more powers and funds to local areas from a Treasury perspective, and worries that money will not be spent in the best way to realise a return on that investment. However, the current status quo is not really feasible either.



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From a business perspective, the situation that went on in the north of England last year, the chaos around timetabling and cancelled services on the rail network being a very high-profile example that did not deliver for businesses. So, the current status quo where infrastructure provision is not fit for purpose in those areas means there is a need to prioritise investment, I would say.

From where the CBI stands, we believe in the power of local areas taking control of their vision for the local economy. We think the situation with Greater Manchester is a good example of what can be done when the local enterprise partnership, combined authority, business community and citizens are aligned around that vision, and that has yielded more powers, more funding from the centre than other areas have managed to agree. That is one of the problems that has surfaced, the rules of the game for devolution; what other local areas have to do to qualify for similar powers and funding has not adequately been set out by the centre.

**Chair:** Certainly as an MP in that area, it is a debatable point as to the merits of that particular governance arrangement.

Q28 **Rachel Hopkins:** In light of everything you have said, when setting up a Government-funded project what principles should civil servants apply to investment decisions and prioritising spending?

**Professor Overman:** We come back to something I alluded to at the start. The problem we have at the moment is that often what happens is we start with the project, we then develop the business case and we work backwards to the strategy. This is exactly the wrong way around. I think what we need is a clear statement of the problem that the project is trying to address, we then should be thinking about the options that would deliver on the objectives, and we should then move to a business case and a strategic case that are carefully articulated and subject to rigorous scrutiny.

Let me give you an example of a project that I think went the other way, which is High Speed 2. If you think about the history of how we ended up committing to High Speed 2, we started with the project. First we were told the project was about meeting one set of objectives to do with journey times. When that set of objectives started looking difficult, we moved instead to saying that this is about capacity utilisation. Then, as it emerged that we could deal with bottlenecks around Milton Keynes as an alternative set of options for dealing with those capacity issues at the bottom of the HS2 line, it became about levelling up, rebalancing. Having looked at that, we then went ahead and looked at the strategic case right at the end. We were a long way down the modelling and the thinking about whether or not HS2 would deliver on stated objectives before we ever got to looking at the regional impacts. If I remember the history right, the option generations were presented in an appendix that came to MPs a couple of weeks before they were expected to vote on the legislation. That feels to me like the reverse of the process that we would want relative to the one I outlined at





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the beginning, which starts with a problem, generates the options, then has careful scrutiny of the business and investment case.

By the way, I am not saying that does not happen for many projects, I am sure it does, especially for smaller ones. However, when it comes to major projects, we often end up with the logic reversed.

**Tom Thackray:** I would add that I think the principle Professor Overman is describing is one of starting slow and finishing fast. That kind of upfront strategic case and business case enables the procurement and delivery phases to go much more quickly and with fewer hiccups.

Another principle we would advocate is some longer-term thinking from commissioners. Too often project budgets are focused on the capital expenditure, the upfront cost, rather than the operational expenditure. They are focused on costs and benefits that are realisable within the short time, such as a parliamentary term, which does skew investment and thinking sometimes, so lengthening out that term would be useful.

Q29 **Tom Randall:** We have touched on this already, but do you think investment decisions should be made nationally or locally? There is a distinction, isn't there, between national co-ordination and prioritisation and local decision-making? How do you bridge the gap between those two things, particularly given that local decision makers might be better informed about local need?

**Tom Thackray:** I think decisions should be taken both nationally and locally, depending on the scale and the impacts of the projects. For nationally significant projects, it is right that the planning process, for example, takes place at that national level and there is accountability from the Secretaries of State to progress those projects. Having said that, I feel there are far more infrastructure projects that could be devised and progressed locally, and we should get on with devolving the powers and funds that enable local areas to do that. There is a slightly chicken-and-egg situation where local businesses, local authorities, are reticent to come up with strong business cases and local plans without the knowledge or foresight about what that is going to yield in terms of the power, the investment and what is going to be devolved to them over the longer run. That is what I would prioritise, and I will leave it there.

**Professor Overman:** I broadly agree with that. We are very centralised, and I think that some movement towards local decision-making on projects where the scale of the impact sits within a clearly defined geographical area would be a good move.

I would add two caveats, one of which is that we should be realistic about the fact that local government has been hollowed out of its capacity to go through that investment process that I just talked about. Some places have it and some places do not. We need to think about how we would address that to make sure all parts of the country are able to think about the projects they need to serve their local community.



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The other thing I would say, which I think is something Mr Thackray said earlier, is that they will need stability on budget to be able to do this. Infrastructure investments are long term. Planning is difficult to do at the national level, but it is very difficult to do planning at the local level if you are constantly unsure about your budget over more than a one-year, three-year and even perhaps five-year timeframe.

**Chair:** Thank you. We just need to move on a little bit.

Q30 **Ronnie Cowan:** Pretty basic, how do we evaluate the success of any project?

**Tom Thackray:** We need good data to make a good evaluation of infrastructure projects, and sadly that is something that is lacking at the moment. There is very little understanding in parts of Government about which partnerships have delivered effectively. I think there are moves within the guidance provided to civil servants to improve this through things like the Outsourcing Playbook, a second version of which is going to be provided this week. That is pushing towards more meaningful KPIs that enable that evaluation and the right kind of project behaviours, simple things like including wash-up meetings at the right timeframe of key milestones of the project, which is going to be really important. It is particularly pertinent for public sector projects in that we see a high level of churn in commercial staff in the civil service, which means without that evaluation and without that data you are always reverting back to square one to press the project further. Therefore, we need more of that embedded within behaviours.

Q31 **Ronnie Cowan:** What is the role of the Green Book during this process?

**Tom Thackray:** The Green Book plays a fundamental role in terms of the appraisal of projects. Obviously it is very much in the spotlight at the moment in terms of potential reform of the Green Book. For us and for the businesses that deal in the infrastructure delivery space, they feel there is significant flexibility within the Green Book already that would enable more factors outside of economic return to be factored into the project appraisal process. By entering into a process of reforming the Green Book or defining another set of criteria, you might delay or confuse matters further, which is not what we need right now.

**Professor Overman:** The crucial thing with the evaluation—I will not go into the details, which is my day job—is we come back and see the extent to which the project has achieved its stated objectives, as outlined in the appraisal. I know that sounds very basic, but we went recently, working with DfT colleagues, to have a look at projects passed on the dependent development basis. A dependent development basis means that the infrastructure was necessary to help deliver on housing. We asked the simple question, for the seven or eight projects delivered through that mechanism, whether the houses were delivered. That turned out to be a very, very difficult question to answer. We are quite good at doing that through something called POPE—I always forget what it stands for, post-



operative project evaluation, I think—where we go back and look at the claims that were made for the highways network about traffic numbers, road speeds and so on. However, we are not very good at doing it more systematically for the wider benefits that we probably care more about.

Looking at what the appraisal said would be the benefits of the project, then coming back afterwards and using methods that allow us to assess whether or not the project actually delivered on any of those objectives and comparing it back is the simple first step that would get us a long way.

**Q32 Ronnie Cowan:** Does optimism bias play a part in this as well?

**Professor Overman:** We are now at a stage where we clearly need optimism bias on the optimism bias because pretty well all of the costings that we see, like HS2, will have had oodles of optimism bias built in it; Crossrail similarly. We have managed to hugely understate the costs.

There I think there is a more active industry that comes afterwards and tries to understand what costs look like. My understanding is that if we set aside those major projects, I think we probably have got better at costing the bread and butter projects through those constant feedback loops from, "Let's see what we thought the cost of the project was going to be" and, "Did that turn out?" I would make a distinction there between the very large projects, where we still seem to suffer from this cost overrun problem, versus the smaller projects where my understanding is that that has improved over time.

**Chair:** Sorry, Ronnie, I beg your pardon. We do need to move on.

**Q33 Jackie Doyle-Price:** I would just like to ask some questions about garnering public support for infrastructure. We all want good infrastructure, but none of us wants it in our backyard. How do you think Ministers should go about making the case for infrastructure projects, particularly where there is something that has national benefit but would impact locally? We can all think of examples, and Heathrow and HS2 are obviously stark ones.

**Professor Overman:** I think it is very difficult. Something that demonstrates to the public that we really have been open in considering the approaches that we could adopt is a hugely important first step in making good decisions around infrastructure. I think people are more likely to be convinced around projects if they feel we have given due consideration to all the options, if they do not feel they are just being landed with a pet project from Ministers or Government. That is a hugely important first step.

A second hugely important step is to make sure that we are adequately compensating people on projects where they feel there is no benefit to them but there is large benefit to the economy as a whole. I am not an expert on how we might achieve that, but it is quite clear if you follow the debate that there is a feeling from people who are most affected that that is not a very fair and transparent process at the moment. We need to think about how we would do that.



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The very important but softer stuff around public engagement is not my area of expertise. I do not know if Tom has any expertise in that area to comment further.

**Tom Thackray:** Not specifically on the public engagement expertise, but I agree with the point that providing optionality and some agency for the public on design and progression of the project can go a long way.

I would also add one further point, because I agree with most of that. Ministers need to avoid overpromising and underdelivering. There is an obvious temptation to announce a project at an early stage with specifics about how much it is going to cost, when it is going to be delivered and what it is going to deliver, when some of those outcomes are likely to be uncertain. When those things change a month before it is due to open, for example, that undermines public confidence in infrastructure overall.

Q34 **Jackie Doyle-Price:** Managing expectations is something that we all do very badly. Just a final quick question: what do you think the impact is when Government fail to communicate adequately with local communities?

**Tom Thackray:** I think it breeds antipathy or, worse, frustration and a lack of confidence in infrastructure. Ultimately, that can reduce the benefits that that infrastructure is then able to create because people disengage, they stop thinking creatively about the regeneration opportunities that could be delivered around major infrastructure, and that is a shame because there are more benefits to be had.

**Professor Overman:** I think the real danger and why we have to get on top of this is that we are always going to have NIMBY-type challenges. It is understandable. You are being majorly impacted by new house building or new infrastructure projects. The benefits are spread very widely. Of course, that is always going to be something that we need to think about and challenge in a democratic society.

I think the real issue is that if we do not build up confidence in the decision making so that the processes are seen as fair, we move from NIMBYism to BANANA, which is build absolutely nothing anywhere near anybody. I do think that public trust is a hugely important part of that. We need to be seen to be fair and open in the decisions that we are making, or people just think that stuff is being done to them and then they start to just object as a matter of course.

While I do not have good solutions for how we could improve that, other than the ones I have mentioned, I do agree with you that it is hugely important that we somehow get people bought in and trusting the process that is leading to these decisions, and that they are able to engage within it. Otherwise, there is a real, significant danger that we cannot go ahead with the infrastructure projects and housing that our communities desperately need.

**Chair:** Thank you, Professor Overman and Mr Thackray, for your



contributions this morning.

## Examination of witnesses

Witnesses: Sir John Armitt and James Heath.

Q35 **Chair:** We are now going to move seamlessly to our second panel. I welcome Sir John Armitt and James Heath. I remind the Committee that at 11 o'clock we will be pausing for a minute's silence, and then we will resume our questioning. Perhaps I could ask the two new witnesses to introduce themselves.

**Sir John Armitt:** Good morning, everyone. My name is John Armitt, and I am the Chairman of the National Infrastructure Commission. I am also involved with a number of other organisations, but today I am certainly here as the Chairman of the NIC.

**James Heath:** I am James Heath, Chief Executive of the National Infrastructure Commission, in post since May this year. My role is effectively leading the secretariat that supports John and the commissioners.

Q36 **John Stevenson:** Sir John, perhaps I can start with you. The Government, as you know, are committed to the idea of levelling up the national economy and boosting economic growth, particularly in the regions. What role do you think infrastructure should play in achieving this?

**Sir John Armitt:** The remit of the National Infrastructure Commission is, in fact, to ensure that we achieve sustainable economic growth across all the regions of the UK, so clearly there is a view from Government in our remit that infrastructure can and should play a significant role.

Clearly, you can look at it on a national level and you can also look at it, as has been discussed in the previous session, at a local level. In city infrastructure, the decongestion of our cities, the achievement of unpolluted and reduced emissions in our cities, the provision of better communication systems in our cities, all will enable those cities to perform better.

It is not infrastructure alone, and I was particularly taken by the observation by Professor Overman with regard to education. I am also chairman of City & Guilds, and to me education is at the root, in fact, of equality across our country. Anything we can do to improve educational attainment across the country and get that on an even footing is, frankly, as important as infrastructure.

**James Heath:** I concur with Sir John. There is clearly a debate going on about the extent to which infrastructure is primarily about removing constraints on growth and removing things like congestion versus the extent to which it can directly stimulate growth in local areas. I think that



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in most cases it will be necessary but not sufficient to drive growth in local areas.

For example, in my previous role before the commission, where you have had transformational benefits like in, say, Salford Quays, what happened there was some underlying transport improvements alongside major business investment. A chunk of the BBC moved there, ITV moved there and Salford University moved there to create a major, world-class media cluster. Transport was part of it, but a whole series of complementary investments had to take place to really turn the dial up.

**Q37 John Stevenson:** You see infrastructure investment as a facilitator as much as anything?

**James Heath:** It is the means, not necessarily the end in itself. It enables and facilitates, but other things will normally need to happen in addition if you want to have a major impact. Overall, there may be cases where infrastructure investment is far more influential, as John was referring to, particularly removal of congestion in major cities, which can act as a major constraint on growth.

**Q38 Jackie Doyle-Price:** My first question is to Sir John. What sort of considerations should drive public spending? Should it all be about economic growth, or should we be looking at other considerations like, for example, carbon emissions, quality of life and environmental considerations?

**Sir John Armitt:** You have hit on the other points that are, again, within the remit of the NIC. The remit of the NIC is, first, to ensure that Britain has continued economic growth and is competitive on the world stage. It is also to do that by recognising the commitments we have made to sustainable development and to our part in things like the Paris Agreement and other agreements, and it is to improve the general quality of life across the country. It is not just economic growth; it is those other wider social factors that are equally important.

**Q39 Jackie Doyle-Price:** Can they pull in opposite directions?

**Sir John Armitt:** I am not sure that they pull in opposite directions. I think they can be complementary. One of the factors that always needs to be considered, of course, is that the only person who pays for our infrastructure is all of us on this call; it is the public. We will have views about the cost-benefit, if you like, the benefit that we are receiving from the services that are provided to us and the cost of them. The cost is always a factor in this, and if people finish up having to spend too much money on the provision of their infrastructure services, that gives them less money to spend on other things that equally enable them to lead a satisfactory and enjoyable lifestyle. There is a balance to be struck, but I would argue that, in fact, infrastructure in the round is fundamental to economic growth and good health, as well as ensuring that people can move around the country in leisure as much as they might want to do it from a business point of view.





**James Heath:** I agree with John that there is a range of factors that you need to take into account. The example I was involved in most in my previous life was around broadband investment. There was a clear economic rationale in terms of productivity benefits to areas, but as big as that was a social public policy consideration. This is now a universal service that all households and businesses must have access to, plus there is a real benefit potentially around how you deliver public services more efficiently online in addition to physical routes. All of them need to be taken into account, and the critical thing for me is to be absolutely clear on what you are trying to achieve and what the strategic objectives are before you move into economic analysis.

Q40 **Jackie Doyle-Price:** It is interesting, isn't it, because the transformational benefits of infrastructure are not always apparent to the public when you are having this debate and when we are going through the issues of consultation with them? Broadband is a very good example in the sense that it is a concept the public will not get until they start using it. I think that is true of lots of infrastructure projects. Sir John, with that in mind—and you know my area of the country extremely well—we have obviously had and continue to have a very healthy debate locally about the Lower Thames Crossing, which is clearly a very important piece of infrastructure for the nation but one that has been locally controversial. How do you make sure that we are genuinely balancing the interests of local people and the nation when we develop these projects?

**Sir John Armitt:** It all starts with how you lay the project out and the way in which you open up the opportunities of a project with the public. Going back again to the remarks from Professor Overman just now, I agree with him. I think we have to be very open about what we are trying to achieve. We have to talk about what happens if we do not do anything. What is the consequence for people of no action and no investment? We then have to show them what the options are, and we have to take them through, if you like, the thinking that is going on. We have to give them the chance to participate in the debate but, at the end of the day, somebody has to make a decision and, frankly, these decisions are all made by politicians, whether they are local politicians or national politicians. That is the challenge of the politics. I have often said there is no infrastructure without politics. You cannot take politics out of infrastructure.

What you have to do, though, is help the politician with the best possible background debate, information and understanding of what the relative merits and challenges are going to be. Then those decisions are made, whether by the local politician, recognising that he has an electorate to satisfy, or the national politician. They are not easy decisions.

If you take the Lower Thames Crossing, you only have to look at London and look at the number of crossings on the Thames west of Tower Bridge and the number of crossings east of Tower Bridge. It is totally disproportionate, the number of crossings. Where has there been more economic activity, more economic growth? Frankly, to the west of Tower



Bridge than to the east of Tower Bridge. Therefore, if you are going to optimise the opportunities between the northern and southern or the eastern and western banks of the Thames, between Essex and Kent, improving that level of opportunity for goods and people to move across is clearly necessary. The existing crossings get well and truly jammed up, so the challenge is how you make that crossing in the most effective way to ensure that, in my mind, both rail and road—and I would argue that that crossing should take into account enhanced rail as much as enhanced road opportunity—optimise the transfer of goods, people and communication in that part of the country.

- Q41 **Jackie Doyle-Price:** You take me neatly on to my next question with that observation, and I have heard you say that before. I often perceive that Government decision making is very siloed, siloed between Departments, siloed between national Government and local government. I think the Lower Thames Crossing is a good example of that, because it is a national decision and the decision they took did not reflect local preferences, but we will park that for a moment. In the example you have just given, there are even siloes within Departments, aren't there? If we were genuinely thinking holistically about infrastructure, would we really be just looking at a Lower Thames Crossing or would we be looking at public transport needs more generally and, like you say, joining it up with rail? What are your observations about that?

**Sir John Armitt:** My observation about that is that Government, in the same way as all the companies I have ever worked for, are driven by personality and they are driven by human behaviour. Human behaviour quite likes a silo. Human behaviour likes to understand its line of command, its channel of communication. It struggles with a matrix organisation, as we call them. People just like reporting up and down. They find reporting sideways a bit more confusing, "Oh, it is not quite as simple." No, life is not simple, I am afraid, and you do have to take into account lateral as well as vertical thought processes.

Government are no different. Government Departments operate like that. If you take the Department for Transport, there is a rail division, there is a road division, there is ports, there is aviation. Each of those have people in them who are ambitious and are seeking to make their mark, and they know they will make their mark more easily by being very successful in their division than they will by trying to solve everybody else's problems. If you are a Secretary of State, the same thing goes. It is hard enough being a Secretary of State of one Department without trying to interlink across all the other Departments.

Everybody then says, "Yes, I understand the benefit of cross communication and we all have to work together." We can all spout the rhetoric. It is not quite so easy to do in human behaviour terms, but we need to do it and we need to try harder.

- Q42 **Jackie Doyle-Price:** How do we do that? Is that leadership by Ministers, or is it something you can do in the National Infrastructure Commission?



**Sir John Armitt:** Yes, it is leadership by Ministers. I have spent more than half my life in the private sector. I am always puzzled by what I would argue is the lack of impact of the Cabinet Office and the—

**Jackie Doyle-Price:** You have just written our report for us, by the way.

**Sir John Armitt:** At the end of the day, you have a chief executive in the Prime Minister and you then have a series of divisional directors, if you like. There needs to be responsibility and co-operation across that in the same way as there would be in any company. You expect people to work together. You expect them to tackle issues together as far as there is an interplay between them. The classic, of course, is between housing in MHCLG and transport in Transport. The two things are inseparable. They have to be thought about together, but getting that done in a meaningful way is a real challenge.

Q43 **Jackie Doyle-Price:** Is that something that the National Infrastructure Commission can do in terms of being that critical friend and forcing that co-ordination?

**Sir John Armitt:** I am not sure we can force it. We have produced reports in which we have emphasised the importance of this. An interesting example would be the Oxford-Cambridge-Milton Keynes arc, which we were asked to look at. We were asked to look at it initially from a transport perspective. When we finished our work and we had consulted with all the people along that route, the answer we got was, "Affordable housing is more important to us than transport connectivity." We finished up making the point that over the next 30 years there potentially needed to be a million new homes on that arc. If you are trying to build a million new homes, you do not do it without properly interrelating it with the transport.

What has happened since that report? Well, the Department for Transport has cracked on, particularly with the rail connectivity and taking forward the rail plans, but on the roads side it has fallen behind because of local concerns around Oxford, and the villages around Oxford are not happy with the fact that a new road should be provided. Not a great deal has happened in deciding where the communities need to be expanded and built because that is the most difficult thing. It pushes you straight back into local politics and the challenges that were being discussed just now with NIMBYism.

**James Heath:** Most infrastructure problems that you look at are really complex co-ordination challenges. I go back to rolling out mobile infrastructure or physical broadband infrastructure. A series of things have to happen. The regulatory model has to be right. Government, yes, have to put some money in in terms of the rolling out into more rural areas, but what is really going to turn the dial here is, if you like, the accumulation of marginal gains: what you do on planning law, what you do on wayleaves, what you do to access a new build, what you do on labour supply. How you co-ordinate those into a coherent plan is really hard. It comes down to political will and setting big goals, then trying to crunch the institutional



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structures around delivering projects and trying to move away as far as you can from siloes, which is really hard.

**Chair:** I thought there was a very refreshing observation and an existential question, perhaps, from Sir John in part of that evidence.

Q44 **Mr David Jones:** Sir John, what role does the National Infrastructure Commission play in co-ordinating investment decisions?

**Sir John Armitt:** I am not sure that we do. We are fundamentally there to look at economic infrastructure. Social infrastructure is not part of our remit. In terms of economic infrastructure, what we have to remember is that of the Government investment in infrastructure, fundamentally 90% is on road and rail, and the other part is on flood management and flood defences. The vast bulk goes into road and rail. In terms of the others, whether it is water, whether it is energy or whether it is telecommunications, those are all in the private sector. Very roughly, you have 50/50 investment by both private sector and public sector, giving you your total of, say, £40 billion a year, or thereabouts, of infrastructure in the UK.

The role of the NIC is to identify across those sectors what needs to happen to meet the objectives that I outlined earlier on in the long term. We basically say to Government, "This is what you need to do in the energy sector" or, "This is what you need to do in water or telecoms" to meet the strategic goals of the UK in the long term.

In terms of trying to co-ordinate those, the closest we get to it, I suppose, is that we have a fiscal remit, which is 1% to 1.2% of GDP at the moment—that is fundamentally for road and rail. We could, at the end of the day, be forced to make choices in how we suggest that money is invested on balance between road and rail over that long-term period. Those private sector investments are going to be driven by private sector business cases, fundamentally, and the only role for Government is then, where they see that the private sector business approach is not working, on to what extent they may have to step in and provide some incentives or some financial support.

Going back to fibre and broadband, the Government do and have and continue to be willing to put money into the harder-to-reach parts of the country in terms of it not being worth the private sector investing in certain parts of the country because the return would just not be there. The Government provide some subsidy to support that, and we would play our part in making those sorts of recommendations about where we see there is a need for the Government to support the private sector to ensure that things happen.

Q45 **Mr David Jones:** What levers does the commission have to influence infrastructure investment?

**Sir John Armitt:** We are a recommending body; we are not a delivery body. We cannot make decisions. We set out recommendations to



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Government, broadly speaking, in two ways. We have an obligation every five years to look forward 25 to 30 years and produce a national infrastructure assessment for Government. On shorter-term pieces of work, the Government will come to us and say, "We would like you to have a look at this." We have had a look, for example, at data and the use of data. We have had a look at connectivity between cities, particularly in the north. We have had a look at smart energy. We have recently produced a report on resilience and the nature of resilience in infrastructure for Government.

The Government are then obliged, under the relationship they have with us, to respond within six to 12 months and say what of our recommendations they are accepting or what they are not accepting. Then every year we, in fact, are required to produce, if you like, a school report on the Government's progress in fulfilling the recommendations where they said they intend to take action.

The biggest difficulty we have had in the last couple of years is that it is now almost two years since we gave a national infrastructure assessment for the next 25 to 30 years. The Government have said they will respond with a national infrastructure strategy. We are now two years on and are still awaiting the strategy. There are all sorts of good political reasons, but we are still waiting.

**Chair:** Sir John, we will pause there.

*One minute's silence was observed.*

Q46 **Chair:** Sorry to interrupt you, Sir John. David Jones, did you have further questions?

**Mr David Jones:** Yes, I do. Did you want to add anything to what you were just saying, Sir John?

**Sir John Armitt:** No, I think I was probably getting a bit carried away.

Q47 **Mr David Jones:** What does the NIC do to follow up on its recommendations to the Government?

**Sir John Armitt:** As I say, to follow up on the recommendations, we do two things. We try to keep the debate alive as long as there has been no response to our recommendations. To be fair to Government, probably 95% of all the recommendations we have made over the last four or five years have been accepted. Now, have they been enacted? That is a secondary question.

We follow that up by producing an annual report in which we comment and critique the extent to which Government have fulfilled their belief that they want to accept our recommendations. It is easy to say you accept a



recommendation. What you then have to do is put in place a plan of action perhaps a specific Government policy and then a delivery programme to fulfil it. That is where Government, of course, tends to be slower because sometimes that requires a change of Government policy. I think a lot of what we do is as much about policy issues—for example, regulatory issues, and we have produced a report on regulation—as it is necessarily about specific or individual projects. Individual projects, particularly within the private sector, are either likely or not likely to be delivered, depending on the regulatory environment and wider Government policies, which can incentivise the private sector to invest.

**Q48 Mr David Jones:** We are awaiting a national infrastructure strategy. What difference do you think that will make to the co-ordination of the plan?

**Sir John Armitt:** A national infrastructure strategy, to be worthwhile, is going to, first, set out a long-term vision. It is then going to have a more specific plan. It is going to allocate investment levels from Government.

Going back to much of what has been discussed this morning, we have recommended £43 billion be allocated to the major cities in this country for those local authorities to decide what to build in their city regions. The Government so far, in their last Budget, said, "Here is some money we are allocating for that purpose for the next five years", but a national infrastructure strategy cannot just look five years forward. It has to look forward 20 years to have any value. How on earth otherwise can people make these long-term investment decisions if they are in the private sector? Because they can see that there is going to be a long-term expectation from Government, perhaps by setting new standards that have to be achieved on emissions or aspects of the environment, or in fact the local authorities can see that there will be a regular flow of funds, not just over the next five years but over the next 15 or 20 years. Any significant infrastructure does not happen in five years. Significant infrastructure can quite likely spend five years just in the talking and the debating, "Shall we do it? Shan't we do it?" You can then spend another five or six years designing it. You do not stick a spade in the ground until about 10 years after you first started talking about it.

**Q49 Mr David Jones:** Do you know why the publication of the strategy is delayed? Have you any information as to when it may be published?

**Sir John Armitt:** I am hoping, from what I hear and read, that it may come out before the summer recess, or it may be delayed until after. What has held it up, clearly, was the whole of the Brexit debate, which pretty well stopped anything else happening in this country as far as I could see for a couple of years. Then, of course, we had an election. Then we had a change of Chancellor, and a change of Chancellor always has an impact on these issues. The new Chancellor was quite clear with us that he particularly wanted to get his head around energy issues, which is one of the biggest challenges the UK faces, in a policy sense, at the moment, before coming out with the infrastructure strategy. It was going to be with the November Budget. It was then going to be with the March Budget. Of





course, it missed both of those. We are now reading all sorts of things about what might happen as a consequence of Covid and the desire to get the economy working, and hopefully the NIS will be a central plank to how we get our economy going again.

**Q50 Tom Randall:** Are there any lessons that the UK can learn from other countries about national infrastructure planning?

**Sir John Armitt:** There are. We have a National Infrastructure Commission as a consequence of a piece of work I did back in 2012 to 2015, which finished up recommending a commission. As part of that work, I looked at what went on in the rest of the world.

The only place where you will find something that is possibly directly comparable to what we do is Singapore. In Singapore, they look forward 50 years. They break that down then into a series of 10-year programmes. They review it every 10 years, not every five years, and Government Departments are then expected to get on with a 10-year programme of work against that 50-year strategy. In the case of Singapore, I think this flowed primarily from the constraint on their land and, therefore, it became how best to use the land in their country to ensure economic development and economic growth.

Australia had a commission before we did, but it operates in a slightly different way because of the federal nature of Australia. In fact, there they have money in the commission and they use that money to support state initiatives where they feel that state initiative is in alignment with central Government and the commission's general view of how infrastructure should develop in Australia.

In Holland, you get a much clearer distinction between central Government and local government. What I was describing just now as what we see as the preferred approach in the UK is one that is adopted in Holland.

France has a slightly different planning system to ours, and in France it is a more controlled planning system. Interestingly, they spend longer on the public engagement at the front end of their projects before they publish the lines on the map.

Apart from Singapore, you do not find anything really quite as structured. To be honest, in writing the report back in 2015 recommending a commission, Singapore quite significantly influenced our thinking as to what might be the best way to go.

**James Heath:** What I am quite interested in is those countries that may have better practice in terms of monitoring and evaluating the actual impact of infrastructure investments. A lot of energy goes into the upfront ex ante assessment of infrastructure costs and benefits and time, but equally important for me is if you are going to learn more about how infrastructure can make a difference and understand that, doing much more ex post assessment of what has actually happened and trying to



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understand the implications of that for the future infrastructure pipeline is really important. I am sure that the UK could do more in this space and build on some of the work that has certainly been done from the What Works Centre for Local Economic Growth in this area.

**Q51 Ronnie Cowan:** I am looking at project approvals here, and I am wondering what civil servants should consider when drawing up investment cases for projects.

**Sir John Armitt:** I will let James go first on this, given that he has worked within a Government Department as a civil servant in DCMS.

**James Heath:** I think it is quite critical to ask a number of tests. You first have to be absolutely clear what you are trying to achieve and the problem you are trying to solve. Secondly, you have to be absolutely clear what Government's role is and why Government need to intervene in this space. That is a strategic case, and understanding that strategic case will tell you a lot about the type of investment you need to make. For instance, if your objectives are to improve national productivity growth, you may decide to make different investments than if your objectives are to reduce regional disparities in productivity.

You also have to be very clear about whether your objectives are primarily economic or whether they are wider social objectives such as universal availability of infrastructure, back to the broadband example I gave some moments ago. In terms of the economic case, looking very hard at the cost-benefit analysis but not becoming too fixated on the cost-benefit ratios. Ultimately, this will be an exercise of judgment based on the evidence.

Then I suppose a couple of areas where perhaps civil servants could get better, where I certainly could have got better, are looking at what has been called the iron rule of major projects, that most of them tend to overrun, exceed their cost estimates and underdeliver on benefits, and how you build into your framework trying to understand the uncertainties that are causing those things to happen. One of the techniques that I certainly used when I was assessing projects was, rather than trying to do bottom-up assessments of the costs of projects and thinking each project is unique, to go and look at what has happened in history and go and look at your reference class and work out the costs that have taken place in that reference class of similar types of projects. It will probably give you a much clearer example or evidence of what the likely costs are going to be of your project than thinking you can do bottom-up, unique cost analysis.

**Q52 Ronnie Cowan:** That is what should happen, but is that what is happening?

**James Heath:** It does happen, but I think it is an area where we could all get better. It certainly does happen, but it is one of the areas I would look for improvement. In my experience of running major Government projects,



we could have got better at the techniques we used to look at cost estimates.

I suppose the other one I would look, which I think is often overlooked, is on delivery and the delivery mechanisms, asking yourself whether you are confident that your preferred approach will actually work. The key here is understanding whether the market can absorb the money quickly enough to deliver what you want. Is the supply chain mature enough? Is there sufficient labour supply? Again, in the area I know best, broadband rollout, these are huge questions and they are the big constraints on how fast you can invest money into rolling out broadband. You have to look at how you fix them, rather than just putting the money in and assuming that you will get the results out quickly. So, they are some things that I would look at.

**Sir John Armitt:** I would summarise all of that to a certain extent as why, what and how. We do not spend enough time on the “why” because that is the difficult bit, and there are usually strong opinions that are already there as to why we should do something without properly understanding why we are planning to do it. Then the “what” is what are the options and what are the ways in which we can deliver that strategic “why”. Then the “how” is how we are going to deliver it. We love delivery because we all think we understand delivery. The “why” is where we need to spend more time, and then we stand more chance of getting the right issues in place when it comes to the “what” and the “how”.

Q53 **Ronnie Cowan:** Does the need to provide that delivery come from the political aspect of it? You say we only work on a four or five-year cycle when we should be working on a 20-year cycle. Is politics pushing forward the projects before we have got to a situation where we genuinely understand where the benefits should lie and the sort of project that we should be rolling out?

**Sir John Armitt:** Yes, and part of the “why” is what do I value. We are not very good at determining what it is we truly value. We cannot have the penny and the bun always. You cannot have time, cost, quality, social impact, business impact. If you want them all, you finish up with the lowest common denominator solution. You have to decide what you really value.

If I can take the example of the Olympics, which everybody says was a fantastic achievement, it was but it was fairly straightforward. Time was the absolute fundamental driver, and everything else took second place to time because we could not be late on the opening ceremony and delivering the Olympics. We had to try to keep control of the budget as best we could, and then we took account of the quality by thinking about what the long-term issues were and what the legacy was of what we were doing.

In fact, interestingly now when you look at other countries and the development of things like an Olympics or an expo, legacy has now become the in subject. Everybody realises that if you are going to invest lots of money in these one-off events that last for a couple of months, or in the case of an expo six months, there has to be a lot more to it. You say, “What



am I investing here for the long term? What is going to be the legacy of all these billions I am spending on an Olympic Games or an expo?" You have to be clear about what you value and then make sure that you are taking forward a solution that addresses that or that you are delivering it in a way that addresses that.

**Q54** **Ronnie Cowan:** Are there changes that could be made to the Treasury's Green Book that would help guide people?

**Sir John Armitt:** As has already been said, that is being reviewed at the moment. I think the simple answer is cost-benefit analysis by itself should not be the be all and end all of these decisions. We have a duty to think about the social impacts. They are not quite as easy to measure, but that does not mean we should run away from them.

I have said in the past—and I probably learned this when I was delivering High Speed 1, the Channel Tunnel Rail Link—the only thing that really matters at the end of the day on these big projects is whether you have the Prime Minister's support and the Chancellor's support. If you do not have both of those, then forget it, it will not happen.

The politics become absolutely fundamental to these things, and we kid ourselves if we think we can work around it. People have said to me that the NIC takes the politics out of infrastructure. I say of course it doesn't. What the NIC does is seek to give politicians the best possible advice and support in reaching these difficult decisions based on a lot of analysis. We are independent. We do not hold an allegiance to anyone, but we want to try to give politicians the best possible advice so that they can then hopefully make those decisions in the most confident way, given that they have good advice.

**Q55** **Ronnie Cowan:** To expand on that slightly, how do we design infrastructure projects where it is going to be for the good of the people rather than an economic benefit?

**Sir John Armitt:** The simple one would be a rural bus network. It is not concrete infrastructure but it is an infrastructure service, as the provision of a transport system. You have to decide whether you want to leave that solely to the private sector, in which case there will not be a rural bus service to speak of because there is no return, or do you say it is important that people, particularly older people, are not reliant on having to be able to drive a motor car to get their shopping and live their lives in a rural community? Therefore, there has to be some sort of regular public transport system to enable them to do that.

At the extreme, you might say that the most cost-effective way to do that is just allow them to call a taxi and not pay for it because the provision of a free taxi service might be cheaper than trying to run lots of buses that only have four people on them on average. We need to be radical perhaps in how we think about the provision of transport services in different parts of the country for different needs. It cannot all just come down to this



service being solely dependent on whether or not I can make a profit from it.

**Q56 Rachel Hopkins:** How can the Government best make their case to the public when planning investment to avoid a situation where major capital investment projects are dogged with public controversy?

**Sir John Armitt:** As I said earlier, by being open and honest in reminding the public. One of the big challenges we always face is that the public believe the Government have money. The Government do not have money; they have our money. Therefore, the public need to have the opportunity to be involved in what is the service for them. The public is the customer, the public is the consumer and, therefore, their views need to be taken into account. To get those views taken into account, we need to be prepared to spend a lot more time opening up the issues.

In the NIC, we have conducted over the last two or three years now a series of what we call deliberative democracy programmes around the country where we have spent, for example, two days with a group of 40 people, split up into groups of six, talking about congestion and how we might deal with congestion in cities. At the end of two days, people have a much better understanding of the choices and consequences. You get to understand what is important to them. Number one of what is important to them: fairness. Number two of what is important to them: their health. It gets tricky when you come down to asking, "To what extent might we charge people to bring their cars into the city, if you would like to see a reduction in the number of cars coming into the city?" Then you get more of a 50/50 split as to how that might be handled.

What is interesting is that what is important to people is, first, they want to feel that they and the community, everyone, is being treated fairly. For example, when we were down in Bristol and we talked about digital and broadband communication, you start off at the beginning of two days with somebody saying, "If they are so silly to go and live in the Somerset levels, of course they are going to get a lousy service." After a couple of days of exploring that, people say, "Well, yes, it is not really fair, is it, that they have a worse service than we do? If it costs us, therefore, a bit more for them to have a better service, yes, okay, we should all be prepared to support that." I think it is being prepared to take the time.

We do not do this ourselves. We employ people who are very good facilitators to achieve this, opening up a debate around people of all ages and all backgrounds, to give them a better understanding of the choices. What happens if we do not do something? What happens if we do? How do we deal with compensation for those who are affected, which was raised by Professor Overman earlier?

In my experience on High Speed 1, it is not so much about the quantum; it is about how long we take to do it. In the typical UK, if I am going to give you £10,000 compensation, then I want every last receipt three years after the event to see that you have spent that £10,000 properly on your



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double glazing. In France, you can go and spend it on a caravan or on a holiday, they do not mind. They have given you £10,000, you get it upfront and that is it, done and dusted. Here we make people sweat for years before we even give them any compensation.

**Q57 Rachel Hopkins:** Would you say that the work you did on engaging helped to depoliticise some of the issues around major projects?

**Sir John Armitt:** These should not, in a sense, be political issues. These should be about what is for the common good of society. Infrastructure is for people, at the end of the day, to enable them to live their lives in a more fruitful way, to allow business to provide jobs, to allow business to be more successful. Part of the NIC's role is to try to develop our ideas and get cross-party support for our ideas, not to see them fall into left/right thinking. These should be policies that we can all sign up to because, fundamentally, whether we are on the left or the right of politics, we probably do want people to lead healthy, meaningful lives with full employment and so forth, and infrastructure has a major role to play in that.

**Q58 Chair:** It is left to me to ask a couple of closing questions, in this age of Covid, on how inevitably that will, or perhaps will not, have a great impact in the longer term. Starting with Sir John, how has the infrastructure sector as a whole been affected by the current issues we are facing?

**Sir John Armitt:** Clearly, the digital sector has seen a significant increase in expectations. I think it has held up pretty well. There have been a few failures, but nothing too bad. People have realised what an important role it can play in their lives, the different role it can play in their lives and the broader role. Theatre is being handled in a different way; all sorts of things are being handled in a different way. This meeting today is a classic example. If you look at what it is doing to the transport sector, then it is decimating it. In fact, people are just not able to travel and, therefore, the private sector organisations responsible for carrying people around are facing a very tough time, so that is a challenge.

I agree with what was said earlier about what the long-term effects of this are going to be. I think it is too soon to say. The AA did an interesting survey: 55% or so of people said, "I will continue to have to go to work five days a week because the nature of my job is that I cannot do any of it from home." When you then said, "What about working one day from home, two days from home, three days from home?" 22% said they thought it would be on an ad hoc basis, 3% said they will probably work one day a week from home, 5% said two, and so on. That is at this point in time, so my gut feel is that if that is what people think today, it will probably be less severe an impact than that consequently.

I think many of our long-term recommendations will be the same regardless of Covid. We have to get on top of flood management in this country. We have to sort out our energy policy. I don't believe Covid is going to affect our energy policy because we have been driven there by





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our desire to achieve zero carbon. Therefore, renewables will be central to our energy policy. The people investing in that need to know what the Government's policy is on nuclear versus natural gas versus renewables, and that policy is desperately needed from Government as part of the national infrastructure strategy.

I think Covid will have some impact, but I do not think it will change the fundamentals, nor will it change the fundamentals of our long-term recommendations.

**James Heath:** I agree with Sir John's fundamental point that it is too early to tell. On this question about whether the changes will be permanent or temporary, I think it is too early to tell. My instinct is that we will probably see an acceleration of trends that were happening anyway. I think that will be one of the key things that comes out of this. I would also observe that the scale of the impact today on things may not necessarily be reflective of the long-term impact. It is not an infrastructure point, but obviously things like live music have been hit hard by social distancing. There is an enduring human need for those things, so they are likely to come back. It survived vinyl and it survived Spotify. Live music has been hit hard, but it will come back.

Another observation, I suppose, is that we have all just run major experiments in virtual working. Firms will now be deciding what types of things can be done efficiently out of the office and what things require face-to-face contact. Rather than a one size fits all, it will lead to a set of different changes in different areas.

The final point I would make, building on what Sir John said, is proximity will remain important for ideas generation and innovation. It is interesting that large numbers of companies that effectively built their empires on the digital economy, companies like Facebook, Apple and Google, are all companies that have built large physical campuses on the west coast of America because they understand the benefits of proximity for ideas generation and innovation.

I think the picture is complex, it is too early to tell, and what we will need to do as part of our next infrastructure assessment is look at the impact on demand and supply for infrastructure coming out of the long-term effects of Covid, alongside other drivers for infrastructure.

**Chair:** I thank everybody for their participation, our two witnesses there and our two witnesses from the first panel as well. I thank colleagues and particularly our broadcasting staff for all their assistance.