HM Treasury

Investing in Britain's future

Cm 8669

June 2013

Investing in Britain's future

Presented to Parliament by
the Chief Secretary to the Treasury
by Command of Her Majesty

June 2013

Cm 8669 £21.25

Any enquiries regarding this publication should be sent to us at public.enquiries@hm-treasury.gov.uk.

You can download this publication from www.gov.uk

ISBN 9780101866927
PU1524

Printed in the UK by the Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

Printed on paper containing 75% recycled fibre content minimum

ID 2570961 06/13

Contents

Foreword

Britain at its best is a country that invests in the future. For centuries we have been pioneers in infrastructure. We invented the steam engine and the first Underground system, we were the first to split the atom, built the world's first jet engine and invented the world wide web. We invested in roads, railways and housing to help drive our economy forward, share prosperity around the country and make sure our people could compete in the world.

But in recent decades, we have let this proud record slip. This is not the fault of any one party or any one government. It's been the result of a collective national mindset that has privileged the short term over the long term, and has postponed difficult decisions.

Our roads are congested, which costs the economy billions every year, and trains are still overcrowded with hundreds of thousands standing on their commute each day. And lack of housing means the average person is now in their mid thirties before they can afford to own a home of their own.

We have made real progress since 2010 in reversing this trend. We've focussed the Government's capital spending on infrastructure, taken steps to stimulate private investment and unblocked delivery problems. But now we need a long-term strategic plan to deal with these challenges over the next decade.

These challenges would be significant enough in normal times. But these are not normal times. We are in a global race, competing with countries like China and India – countries which understand the importance of modern infrastructure to a thriving economy and are investing billions in updating everything from their road networks, to intercity railway lines and power stations. The strength of our economy and the fairness of our society in the future depends on making the right long-term investment decisions now.

Already, this Government has given the green light to High Speed 2, is undertaking the largest investment in our railways since Victorian times and is building Crossrail – Europe's biggest construction project. In these pages, you will see the next steps. We are presenting a dynamic vision for the future of British infrastructure – and a fully costed and detailed plan of how we will get there.

It includes proposals for the biggest investment in our roads since the 1970s, a plan, build and repair 200,000 affordable homes, and the long term certainty that our scientists and energy sectors have been crying out for.

This is what the UK needs – a strategic, long term plan. It's a plan to build, repair and renew our key infrastructure. And it's a plan we hope the whole country can get behind.

George Osborne
Chancellor of the Exchequer

Danny Alexander
Chief Secretary to the Treasury

1 Introduction: planning for the long term

1.1 The Government is determined to succeed in the global race by creating growth and delivering lasting prosperity. To build a strong economy, necessary for a fairer society, the UK needs infrastructure that competes with the best in the world. Long-term investment in infrastructure helps in rebalancing the economy, enhances productivity and creates jobs. It also means the UK is ready to face new challenges such as population growth and climate change and take full advantage of new technologies. The UK needs transport and communications networks that connect people and businesses; resilient, cost effective and sustainable energy supplies; and the science infrastructure which can give UK industry the edge over our competitors. 21st century infrastructure is needed for a 21st century Britain.

1.2 This is a long-term commitment which requires concerted action to tackle historic problems of short-term decision making, uncertainty in funding and financing and failures in delivery.

1.3 The *National Infrastructure Plan*, first published in 2010 and updated annually, began the process of providing clarity and visibility on the investment needed. It established the performance of the UK's core networks and articulated the Government's infrastructure investment priorities to 2015 and beyond.

1.4 Now, over halfway through this Parliament, the Spending Round sets out the next phase of this plan. There are four elements:

- a pipeline of public investment in infrastructure worth over £100 billion to 2020;
- policy reforms to stimulate new private sector investment in energy generation, building on the UK's world-leading track record in attracting investment;
- transforming the financing of major projects by the further roll-out and extension of the UK guarantees scheme; and
- strengthening public sector delivery of major projects and programmes, learning from successful approaches taken in the Olympics and elsewhere.

1.5 A full update of the *National Infrastructure Plan* will be published at the time of the Autumn Statement 2013. A refresh of the infrastructure and construction pipelines will be published later this year.

Publicly funded infrastructure investment: planning for the long term

1.6 The Government has consistently prioritised capital investment over day-to-day spending. At Autumn Statement 2011 and Autumn Statement 2012, the Government increased its capital spending plans by £10 billion, funded through permanent reductions in wasteful spending. Following these changes, public sector investment is set to rise by £3 billion to £47.2 billion in 2013-14 and by a further £3.2 billion to £50.4 billion in 2014-15.

1.7 The Government committed to maintaining this level of investment at Budget 2013, raising capital spending plans by £3 billion per annum, meaning £18 billion additional investment over the next Parliament. This was funded through further savings in current expenditure. Overall this means public investment will amount to over £300 billion over the next parliament. As a share of GDP public investment will be higher on average over this whole decade than under the whole period of the last government.

1.8 The Government recognises the need for continued investment and is now committing to publicly fund a pipeline of specific projects worth over £100 billion over the next parliament, including over £70 billion in transport, over £20 billion in schools, and over £10 billion in science, housing and flood defences. The Government will:

- commit to the biggest programme of investment in roads since the 1970s. The Government will treble annual investment in major road schemes by 2020-21, compared to today's levels, by:
  - adding extra lanes to the busiest motorways, the equivalent of at least an additional 221 lane miles in total by opening the hard shoulder to traffic and using new technology;
  - building all available Highways Agency road projects to tackle the most congested parts of the network, subject to value for money and deliverability, including the A14 from Cambridge to Huntingdon and the M4 from London to Reading;
  - identifying and funding solutions to tackle some of the most notorious and longstanding road hot spots in the country, including feasibility studies to look at problems on the A303 to the South West, the A27 on the south coast, the A1 north of Newcastle, the A1 Newcastle-Gateshead Western by-pass, connectivity to Leeds airport and trans-Pennine routes between Sheffield and Manchester;
  - upgrading the national non-motorway network managed by the Highways Agency with a large proportion moved to dual-lane and grade-separated road standard to ensure free-flowing traffic nationwide; and
  - repairing the national and local road network. A total commitment of £10 billion with nearly £6 billion to help local authorities repair the local road network and over £4 billion to enable the Highways Agency to resurface the vast majority of the national network by 2020-21;
- build High Speed 2 (HS2) with trains travelling at up to 400 kilometres per hour, bringing two thirds of the population of northern England within two hours of the capital. The Government is applying lessons from the successful delivery of the London 2012 Olympic Games to HS2 and is setting a funding envelope of £42.6 billion (in 2011 prices) for construction costs and £7.5 billion for rolling stock together with a strong cost control framework. The Government will also establish a HS2 growth taskforce chaired by Lord Deighton to capitalise on the growth opportunities across the country resulting from HS2;
- provide long-term stability in science investment, underpinning investment in key Research Council priorities and the Eight Great Technologies, including big data and robotics, by increasing science capital funding in real terms from £0.6 billion in 2012-13 to £1.1 billion in 2015-16 and then in line with inflation to 2016-17. The Government will provide a long-term commitment to science infrastructure over the next Parliament, by setting an overall capital budget, growing in line with inflation each year to 2020-21;

- enable more of the UK to benefit from high speed digital connectivity by investing up to £250 million, locally match funded, to extend superfast broadband provision from current coverage plans so that 95 per cent of UK premises will have access to superfast broadband by 2017;
- provide significant support for the housing market, with a total of over £5.1 billion of investment to support housing in England between 2015-16 and 2017-18. This includes £3.3 billion of new funding for affordable housing between 2015-16 and 2017-18 and certainty on social rents up to 2025-26, providing a framework to support long-term private investment and over 200,000 new affordable homes by 2018-19. This will provide the confidence to build new homes over the next decade. It is complemented by other major housing measures, including total investment of £3.7 billion between 2013-14 and 2015-16 to support home ownership through Help to Buy: equity loan;
- for the first time set a specific long-term funding settlement for flood defences, rising to £370 million in 2015-16 and then protected in real terms until 2020. This will deliver improved protection to at least 300,000 homes; and
- commit to invest more than £21 billion capital investment in schools over the next Parliament, which includes enough funding to build over 275,000 new primary school places; 245,000 new secondary school places; open up to 180 new Free Schools; 20 University Technical Colleges and 20 Studio Schools a year; as well as addressing all essential schools maintenance needs.

1.9 These projects have been prioritised through a zero-based review of the economic returns of every central government capital programme, with investment being targeted increasingly at economic infrastructure. Transport investment for example is already higher than at any point under the last government – and is now set to rise by at least 30 per cent by 2020-21.

1.10 To enable infrastructure to be delivered in the most efficient and expedient way, certain projects and policy areas will be given greater flexibility to move money between years than is currently permitted under the existing Budget Exchange rules. Flexibilities will be offered on a case by case basis, but areas that are likely to qualify for this include the Highways Agency and HS2 once it enters construction.

1.11 Table 1.A provides more detail on the Government's long-term spending plans for transport. Table 1.B sets out departmental capital budgets in 2015-16.

Table 1.A: Government long-term spending plans

£m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Transport							
High Speed 2[1]	832	1,729	1,693	3,300	4,000	4,498	16,052
Highways Agency	1,497	1,907	2,316	2,614	3,047	3,764	15,145
Network Rail[2]	3,548	3,681	3,770	3,789	*3,824*	*3,859*	22,471
London Transport Investment	925	941	957	973	990	1,007	5,793
Local Authority Major Projects[3]	819	819	819	819	819	819	4,914
Local Authority maintenance	976	976	976	976	976	976	5,856
Integrated Transport Block[4]	458	458	458	458	458	458	2,748

Policy certainty for private investors

1.12 The UK is a world-leader in attracting private sector investment in infrastructure. A recent study ranked the UK as the No.1 place in the world for infrastructure investment.[5] Longer term certainty for private investors drives down costs for taxpayers and consumers, releases efficiency savings from long-term planning and consistency and gives the supply chain greater clarity.

1.13 The Government is taking further steps to strengthen certainty in the energy sector by:

- implementing a regime that will make sure that there are enough power stations available when we need them. These payments will be made through what is known as a capacity market and will be allocated by auctions, which will start in 2014 for delivery in 2018-19;

- announcing its proposals for the prices that will be available for renewable energy generation from next year. These 'strike prices' will be stable and legally binding under new Contracts for Difference for large scale generation. They will be subject to consultation and state aid approval. For the first time they will be at a set rate rather than dependent on unpredictable wholesale prices, making investments in new technologies such as wind power less risky and more attractive;

- publishing a comprehensive package of reforms to enable shale gas exploration including proposals for the tax regime, for planning, and for community benefits, to give the UK a world-leading regime for investment; and

- publishing the British Geological Society study on the amount of shale gas resources in Bowland Shale. This shows that the total volume of gas in the Bowland Hodder shale in northern England is some 1,300 trillion cubic feet (central estimate). This compares to the recent US Energy Information Administration estimate on the UK's shale gas resources of around 600 trillion cubic feet.

[1] These figures include a provision for VAT (£83 million, £140 million, £178 million, £428 million, £545 million, and £692 million respectively in each year). It is possible however the project may be able to reclaim VAT depending on the delivery model chosen.

[2] The Network Rail Grant has been set for the period 2014-15 to 2018-19. These figures assume flat real in 2019-20 and 2020-21, but this does not represent the Government's policy on rail investment in the period 2019 to 2024.

[3] This will form part of the Single Local Growth Fund

[4] £200 million each year will form part of the Single Local Growth Fund

[5] *Nabarro Infrastructure Index - Attracting Investment*, Nabarro LLP

1.14 Certainty is just as important at a local level. As part of the response to Lord Heseltine's report the Government has asked Local Enterprise Partnerships (LEPs) to develop local strategic economic plans. LEPs are the right vehicle for driving economic growth as they bring together businesses and local leaders allowing them together to determine local priorities, decide what an area needs and plan local infrastructure and other economic spending over the long-term. It will be on the basis of these plans that places will negotiate Growth Deals with Government, securing control over resources and greater influence, including an allocation from the £2 billion a year Single Local Growth Fund that is created in this Spending Round.

Transforming financing

1.15 The Government needs to help infrastructure businesses meet challenges, arising from the financial crisis which has constrained the availability of long-term debt across the world. With banks less willing to lend, the UK needs institutional investors to provide finance. There are encouraging signs of progress including from major institutional investors including M&G and Legal & General, Allianz and MetLife, and the progress that the pensions industry is making in setting up the Pensions Infrastructure Platform.

1.16 But the Government recognises the need to avoid delay to delivery of schemes in the shorter term. The Government is therefore using the strength of its balance sheet to provide the £40 billion UK Guarantees facility for infrastructure projects. A guarantee has already been provided for the conversion of part of the Drax power station from coal to biomass and the Government has offered a guarantee to support Greater London Authority (GLA) borrowing by up to £1 billion for the extension of the London Underground Northern Line to Battersea. To continue to facilitate increased private sector investment in infrastructure, the Spending Round extends the UK Guarantees Scheme by two years to December 2016. The Spending Round also announces that:

- the proposed new nuclear power station at Hinkley Point C is eligible for a UK Guarantee, in addition to over 25 projects worth £13.5 billion which have also been prequalified for the UK Guarantee Scheme;
- the Mersey Gateway Bridge will receive a UK Guarantee of up to £500 million to enable construction to begin early next year; and
- HM Treasury is working with the Greater London Authority to support housing regeneration in Tottenham through the UK Guarantee Scheme.

1.17 In addition to this progress on the UK Guarantee Scheme and the Government's long-term capital funding commitments at this Spending Round, the Government is taking further steps to improve transparency over Private Finance Initiative (PFI) arrangements. Autumn Statement 2012 announced that the Government would introduce a control total for the commitments arising from off balance sheet Private Finance Two (PF2) contracts. The Spending Round announces that this control total will include the existing stock of PFI contracts as well as new PF2 contracts signed. The coverage of the control total will include all PFI and PF2 contracts funded by central government. The control total will limit payments under PFI and PF2 contracts in nominal terms in each future Parliament and will be set for the five years from 2015-16 at £70 billion. Performance will be assessed on an annual basis at Budget.

Ensuring delivery: learning from success

1.18 Commitments in funding and financing also need to be supported by a long-term focus on project delivery. Lord Deighton has therefore been given a mandate by the Prime Minister and

Deputy Prime Minister to overhaul the delivery of public-sector infrastructure projects and programmes.

1.19 Learning the lessons from the successful delivery of major projects such as the Olympic Games and Crossrail, the Government will introduce a new presumption that significant economic infrastructure projects and programmes should be undertaken by specialist delivery units with commercial expertise, reflecting private sector best practice. These units will be supported by a streamlined and commercially aware sponsor capability within departments. Adopting this new approach across key infrastructure departments will drive effectiveness and enhance value for money for the taxpayer. Lord Deighton will now work with these departments to determine how this new delivery model should be implemented in practice on a case-by-case basis. This work will include:

- drawing on the Brown Review of the franchise programme and the work of Lord Deighton to improve delivery of significant infrastructure projects, the Department for Transport will bolster its commercial capability in rail franchising. By December 2013, DfT will also set out plans for the future location of these functions so as to ensure the optimal management and delivery of the Government's rail franchising programme;
- drawing on the findings of the Cook Review, the Highways Agency will be transformed in to a publicly-owned corporation which has the long-term funding certainty and flexibility which will enable it to deliver capital efficiencies worth £600 million by 2020-21. This investment and these reforms will be underpinned by legislation to provide certainty for the public, business and industry;
- Broadband Delivery UK will be given greater operational freedom and an enhanced delivery focus, and will be equipped with the commercial skills it needs to deliver a broadband programme that will now extend to at least 2017;
- specialist delivery bodies will be used as the primary vehicle for implementation of Electricity Market Reform. Contracts for Difference and the Capacity Market will be delivered through National Grid and – for ongoing management of Contracts for Difference – the newly established counterparty body. Ofgem will have an important role in overseeing the arrangements;
- the Department of Energy and Climate Change (DECC) will be appointing a licensed company to manage the communications and data services that will support the roll out of Smart Meters across Great Britain; and
- the Department for Environment, Food and Rural Affairs (DEFRA) will continue to strengthen its commercial capability and Departmental 'sponsor' function, including working with the Environment Agency to ensure that the lessons from Lord Deighton's assessment are applied to the delivery of its ambitious flood defence programme. It will also consider how the model of specialist commercially-focused delivery units could be used to strengthen the delivery of future infrastructure projects and programmes, including the Government's role in the Thames Tideway Tunnel.

Table 1.B: Departmental Capital Budgets (Capital DEL)

	£ billion		Per cent
	Plans[1]		Year-on-year
	2014-15	2015-16	real growth
Capital DEL			
Education	4.6	4.6	-1.7
NHS (Health)	4.6	4.7	0.1
Transport	8.9	9.5	5.5
DCLG Communities	4.8	3.1	-35.6
Business, Innovation and Skills[2]	2.1	2.5	15.3
Home Office	0.5	0.4	-17.6
Justice	0.3	0.4	14.2
Law Officers' Departments	0.0	0.0	1.7
Defence[3]	8.7	8.7	-2.3
Foreign and Commonwealth Office	0.1	0.1	-1.8
International Development	2.0	2.6	25.6
Energy and Climate Change	2.2	2.3	3.1
Environment, Food and Rural Affairs	0.5	0.5	-7.7
Culture, Media and Sport[4]	0.3	0.1	-57.6
Work and Pensions	0.2	0.2	-22.5
Scotland[5]	2.8	3.0	2.7
Wales[5]	1.4	1.5	0.3
Northern Ireland[5]	1.0	1.1	1.5
HM Revenue and Customs	0.1	0.1	-1.9
HM Treasury	0.0	0.0	-26.3
Cabinet Office	0.0	0.0	-31.7
Single Intelligence Account	0.3	0.3	24.2
Small and Independent Bodies	0.1	0.1	5.7
Green Investment Bank	0.0	1.3	–
Adjustment for Devolved Administration borrowing	0.1	0.3	–
Spending commitments not yet in budgets	0.0	0.4	–
Reserve	0.9	0.5	–
Special Reserve	0.3	0.0	–
Total Capital DEL	**46.9**	**48.3**	**1.3**
CDEL not in PSGI[6]	-9.0	-11.2	–
PSGI Allowance for Shortfall[7]	-1.0	-1.0	–
PSGI in CAME	13.5	14.3	–
PSGI	**50.4**	**50.4**	**-1.7**

[1] *For capital budgets, 2015-16 plans are compared with 2014-15 control totals.*

[2] *Excluding financial transactions, BIS CDEL rises by 8.7% in real terms.*

[3] *This excludes any additional carry forward into the MoD's 2014-15 control total as the exact profile is yet to be agreed.*

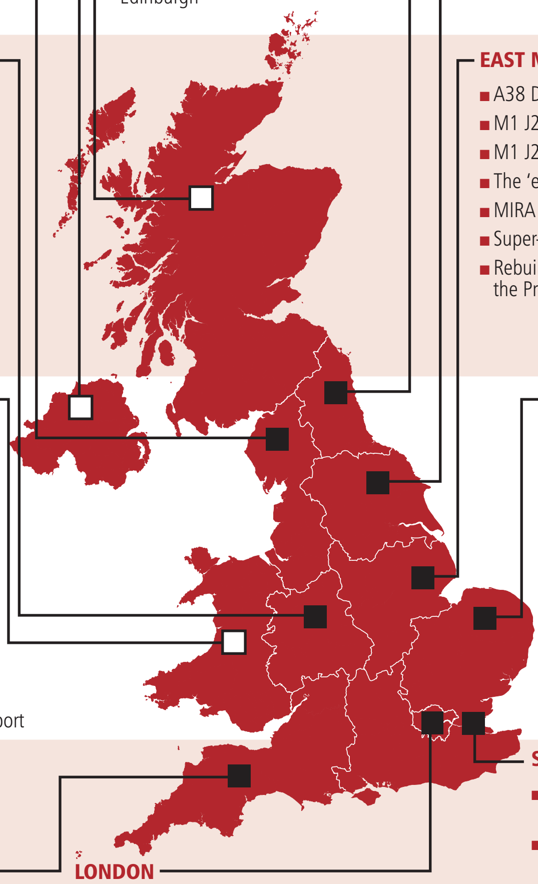
[4] *The overall change to DCMS capital funding in 2015-16 compared to 2014-15 is lower, owing to broadband spending currently profiled in AME and the change in treatment of national museum reserves.*

[5] *Settlements for the Scottish Government, Welsh Government and Northern Ireland Executive are determined by the Barnett formula, which reflects the devolution settlements in those countries. Wales benefits from greater direct spending by UK Government departments, on functions which are otherwise devolved to the Scottish Government and Northern Ireland Executive, such as rail.*

[6] *Capital DEL that does not form part of public sector gross investment, including financial transactions and Single Use Military Equipment (SUME).*

[7] *As set out in paragraph 1.12 in 2015-16, the Government is over-allocating PSGI by an equivalent amount to the OBR's 2014-15 Allowance for Shortfall.*

Figure 1.A: Long-term capital investment



NORTHERN IRELAND

- Devolved responsibilities include: rail, roads, local transport, water, flood and waste
- Real terms increase in capital budget
- Additional borrowing powers of £100m over two years to support investment in shared housing and education
- Super-connected city: Derry/Londonderry

NORTH EAST

- A19 Testos flyover construction
- A19/A1058 coast road near Newcastle improving access to Port of Tyne and major employment sites
- A1 upgrade Works Lobley Hill
- High Speed 2
- Increased rail capacity on East Coast Mainline and Newcastle
- New InterCity Express rolling stock
- Rebuilding 31 schools in poor condition as part of the Priority School Building Programme

NORTH WEST

- M60 J24-27 and 1-4, the M62 J10-12, the M56 J6-8, and the M6 J16-19 and 21a-26 managed motorway schemes £814m
- Mersey Gateway Bridge government investment and pre-qualification for a UK Guarantee
- High Speed 2
- Northern Hub rail link upgrade programme
- Manchester City Deal finalised
- Rebuilding 39 schools in poor condition as part of the Priority School Building Programme

SCOTLAND

- Devolved responsibilities include: rail, roads, local transport, water, flood and waste
- Real terms increase in capital budget
- New capital borrowing powers of £296m in 2015-16
- High Speed 2
- New InterCity Express rolling stock
- East and West Coast Mainline capacity upgrades
- Super-connected cities: Aberdeen, Perth and Edinburgh

YORKSHIRE AND THE HUMBER

- A63 Castle Street access improvements to the Port of Hull to relieve congestion and improve safety
- A160/180 Immingham dualing scheme
- Transpennine electrification
- Additional rail capacity in Sheffield and Leeds
- The 'electric spine' rail enhancement programme
- A1 Leeming to Barton – converting dual carriageway into 3 lanes
- Super-connected city: York
- UK Guarantee issued for Drax biomass conversion
- Rebuilding 36 schools in poor condition as part of the Priority School Building Programme

WEST MIDLANDS

- Managed motorway schemes on M5 J4a-6 south of Birmingham, M1 J13-19 Rugby, M6 J2-4 and J13-15
- M54/M6 link road Wolverhampton
- High Speed 2
- Rebuilding 22 schools in poor condition as part of the Priority School Building Programme

EAST MIDLANDS

- A38 Derby junction improvements
- M1 J24-25 managed motorway scheme at Long Eaton
- M1 J28-31 accelerated delivery pilot
- The 'electric spine' rail enhancement programme
- MIRA technology park – Automotive Research Centre*
- Super-connected city: Derby
- Rebuilding of 28 schools in poor condition as part of the Priority School Building Programme

WALES

- Devolved responsibilites include: roads, local transport, water, flood and waste
- Real terms increase in capital budget
- Exploring M4 funding options alongside response to Silk Commission
- Great Western Mainline Electrification extended from Cardiff to Swansea
- Welsh Valleys electrification
- New InterCity Express rolling stock
- Construction of a new prison in north Wales
- Super-connected cities: Cardiff and Newport

EAST OF ENGLAND

- A14 Huntingdon to Cambridge
- A5-M1 new link road
- M25 J30 improvement works
- Lower Thames Crossing
- Upgrade Barbraham Research Institute
- Alconbury Enterprise Campus*
- Super-connected city: Cambridge
- Rebuilding 15 schools in poor condition as part of the Priority School Building Programme

SOUTH WEST

- Electrification of Great Western Mainline
- Capacity upgrade to Bristol Temple Meads station
- New Heathrow link from the Great Western Mainline
- Hinkley C Nuclear Power Station pre-qualification for a UK Guarantee
- Rebuilding 17 schools in poor condition as part of the Priority School Building Programme

LONDON

- Crossrail 2 examining funding and financing options
- Upgrades to Piccadilly and Bakerloo lines
- Gospel Oak and Barking electrification
- High Speed 2
- Thameslink upgrade
- Improvements to London Waterloo station
- Increased capacity across London, including at London Bridge, Victoria, and St Pancras stations
- Rebuilding of 46 schools in poor condition as part of the Priority School Building Programme

SOUTH EAST

- M4 J3-12 London to Reading managed motorway scheme
- M23 J8-10 managed motorway scheme near Gatwick
- Managed motorway schemes on the M20 J3-5 Maidstone, M27 J4-11 and the M3 J9-14 near Southampton
- A21 upgrade Tonbridge to Pembury
- A27 Chichester Bypass improvements
- M20 J10a
- A2 Ebbsfleet Junction
- A2 Bean
- Lower Thames Crossing
- East-West rail project from Oxford to Bedford, via Milton Keynes and Aylesbury
- Upgrade Harwell Science and Innovation Campus*
- Rebuilding 27 schools in poor condition as part of the priority School Building Programme

* subject to due diligence

2 Roads

The road network is fundamental to the UK economy. But while traffic and congestion have risen, investment over the past few decades has fallen. Road maintenance and repair have too often been the first victims of short-term financial planning. The Spending Round commits to an historic shift in the UK's approach to roads, underpinned by the biggest programme of investment since the 1970s. By 2020-21 the Government will treble investment in major new road enhancements from today's levels, marking the start of a radical new programme of renewal of our national road network. This is alongside an investment of £10 billion for repairs to ensure sustainability of the network we already have. Significantly, this will be underpinned by reforms to the way we manage the road network to lock in this investment and secure collaboration with the construction industry to deliver this step change in investment. The Government will invest over £28 billion in enhancements and maintenance of national and local roads to:

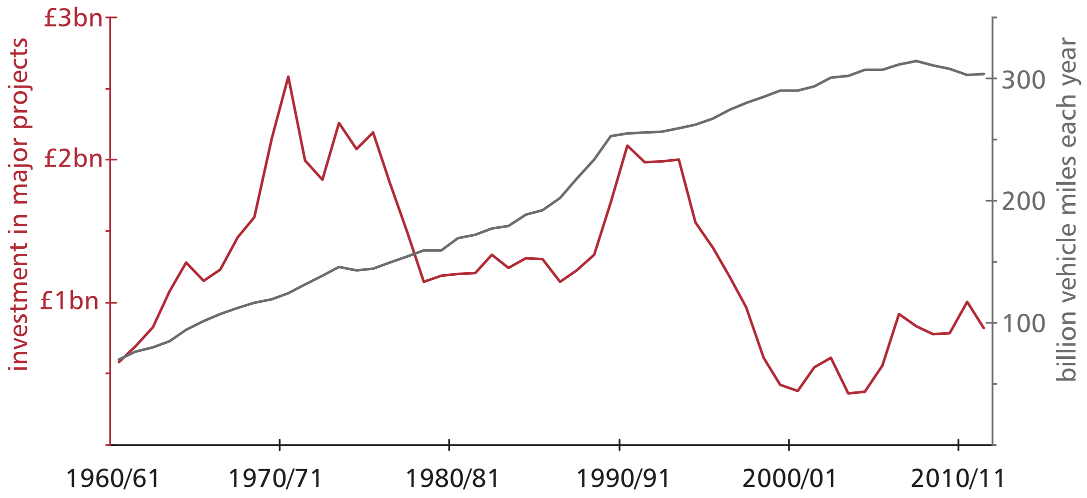
- **add extra lanes to the busiest motorways,** the equivalent of at least an additional 221 lane miles, by opening the hard shoulder to traffic and using new technology;
- **build all available Highways Agency road projects, tackling the most congested parts of the network,** subject to value for money and deliverability, including the A14 from Cambridge to Huntingdon and M4 from London to Reading;
- **identify and fund solutions to tackle some of the most notorious and longstanding road hot spots in the country**, including feasibility studies to look at problems on the A303 to the South West, the A27 on the south coast, the A1 north of Newcastle, the A1 Newcastle-Gateshead Western by-pass, connectivity to Leeds airport and trans-Pennine routes between Sheffield and Manchester;
- **upgrade the national non-motorway network managed by the Highways Agency** with a large proportion moved to dual-lane and grade-separated road standard to ensure free-flowing traffic nationwide;
- **repair the national and local road network.** A total commitment of £10 billion with nearly £6 billion to help local authorities repair the local road network and over £4 billion to enable the Highways Agency to resurface the vast majority of the national network by 2020-21; and
- **transform the Highways Agency into a publicly-owned corporation,** drawing on the findings of the Cook Review, which has the long-term funding certainty and flexibility which will enable it to deliver capital efficiencies worth £600 million by 2020-21.

A legacy of underinvestment

2.1 Roads underpin a free-flowing and successful economy but have suffered from massive historic underinvestment. This trend, when combined with a model of delivery, has served to hold back the country's transport infrastructure for the worse. The result of this underinvestment is that UK is currently ranked 24th in the world for quality of roads. France is currently first, Germany is 10th, and Spain is 13th in the world.[1]

2.2 Over the last fifty years the volume of traffic in this country has risen dramatically – from 70 billion vehicle miles travelled per year in 1960-61 to 304 billion in 2011-12. However, the level of public investment in the road network has not kept pace with this trend, and has fluctuated wildly over the same period as the result of short sighted decisions of successive governments. Chart 2.A shows that the UK finds itself in a position of historic lows in terms of investment in roads – only one third the levels spent at the peak 40 years ago. The UK also does not compare well with other countries – Germany spends 30 per cent more per head, and France 75 per cent more per head on investment in major roads projects than the UK.

Chart 2.A: Government investment in the strategic road network since 1960[a]



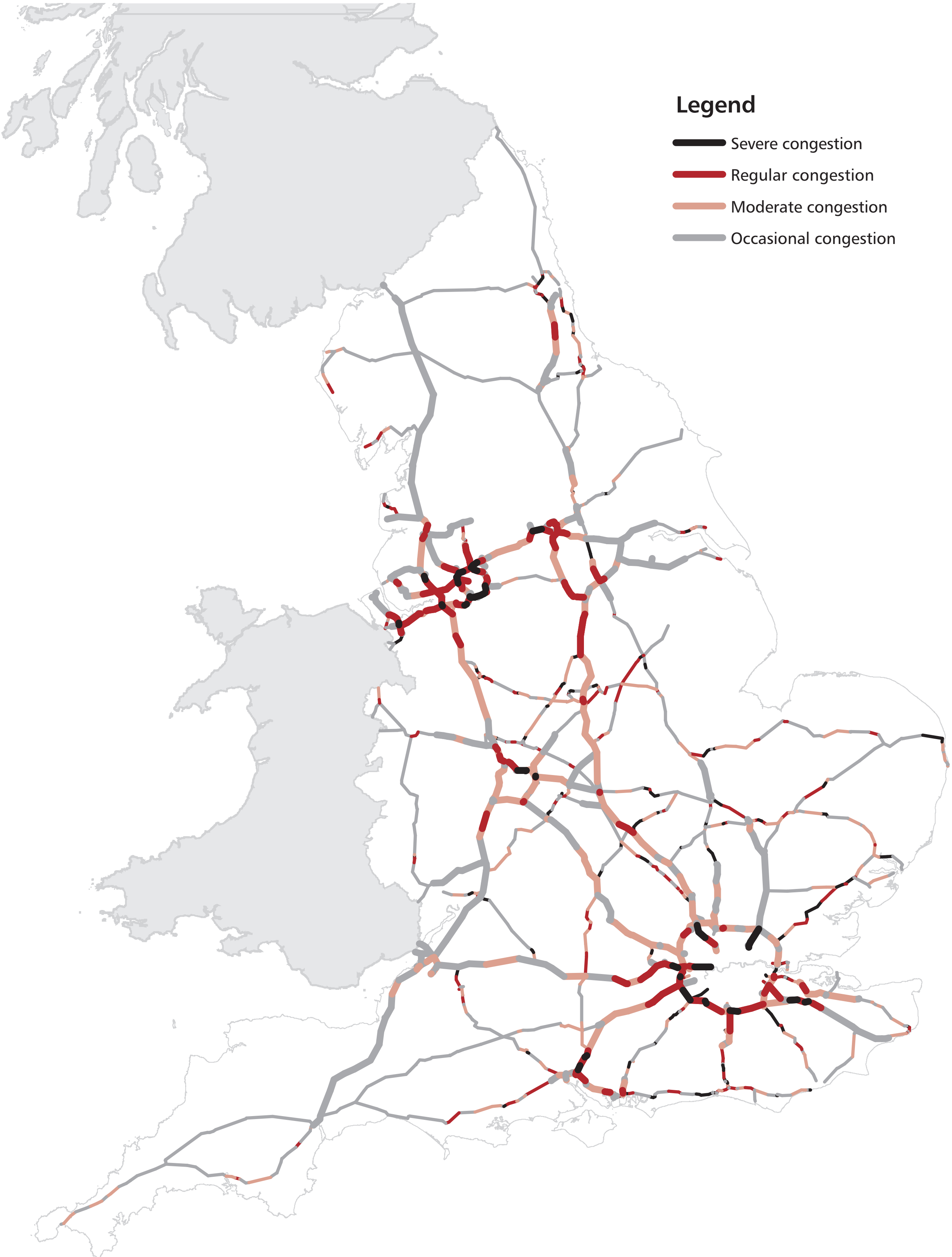
[a] This covers the strategic road network only. England and Wales until 1964, and England only 1965 onwards.

2.3 The result of decades of underinvestment is that the UK must rely on too many assets created in the 1960s and 1970s. Parts of this network are around forty to fifty years old and in need of urgent repair work. Local authorities estimate a £10 billion backlog in local highways maintenance that would take twelve years to address if the funds were made available. Poor quality roads create congestion through road works and delays, which cost businesses and individuals through reduced productivity, increased fuel consumption, delayed deliveries and damage to vehicles. It is also estimated that a third of drivers have damaged their vehicle as a result of hitting a pothole in the last two years.

2.4 A recent survey suggested that local authorities made £32 million of compensation payments to road users for damaged vehicles resulting from poor local road conditions. The national road network is also now very heavily congested in certain concentrated areas of the country. Congestion on the whole road network is estimated to cost the economy £19 billion every year, creating delays and uncertainty for commuters and businesses alike. This pattern will only get worse in the future with traffic levels estimated to be anywhere between 22 to 71 per cent higher by 2040. This is set out in the comparison of Figures 2.A and 2.B.

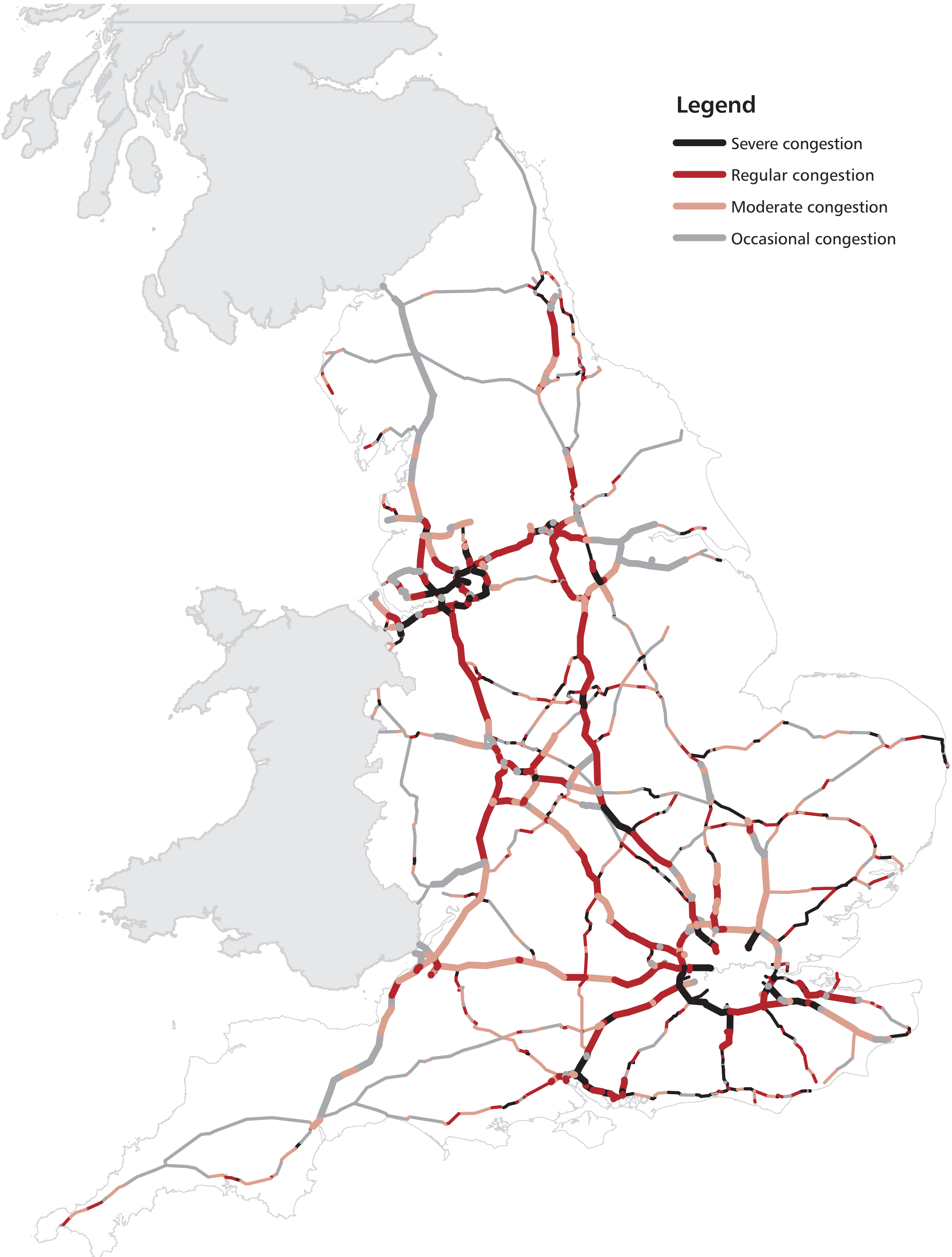
[1] *Global Competitiveness Report 2012-13*, World Economic Forum

Figure 2.A: Congestion on the road network in 2010



Source: Department for Transport. The source material will be published later in 2013.

Figure 2.B: Forecast congestion on the road network in 2040



Source: Department for Transport. The source material will be published later in 2013.

2.5 Over the decades roads have consistently suffered from being 'at the back of the queue' compared to other economic infrastructure and, when times are tough, roads spending has often been the first victim of public spending cuts. This has too often meant work has started only to be cancelled again, workers laid off only to be re-hired again at great expense, and money spent in the wrong places at the end of the financial year on the basis of 'use it or lose it'.

The Government's commitment to roads

2.6 The Government has already committed to major investment in the road network in this Parliament. Since 2010, several major projects have been completed and many more are under construction and investment in roads will be higher than at any point in the last decade. Table A.1 and A.2 at Annex A set out the local and national transport projects completed, under construction or due to start this Parliament.

2.7 However, the Government recognises the need to reverse the legacy of underinvestment in the UK's road network. It is determined to end the backlog of roads maintenance and invest more over the long term to transform the network. This will be underpinned by major institutional reforms to ensure the Highways Agency is able to deliver this long term programme efficiently and effectively, and provide certainty to the industry and the public that these reforms and investment are guaranteed.

Ending the backlog in road repairs

2.8 The Government will repair the national road network, investing over £4 billion by 2020-21 to enable the Highways Agency to repair and renew the national road network, including resurfacing around 21,000 lane miles – eighty per cent of the Strategic Road Network. This is the equivalent to resurfacing a two lane road from London to Nairobi.

2.9 The Government will also support local authorities to repair the local road network, investing nearly £6 billion over the next Parliament to tackle the significant maintenance backlog that exists today. This is the equivalent of 19 million potholes a year up to 2020-21. Together with the national maintenance funding, this investment in repairing the road network will sustain over 11,000 jobs through every year of the next Parliament.

Transforming the network

2.10 However, the demands on the national road network will continue to rise toward 2020 and beyond, so the Government is making the historic decision to increase roads investment in major projects to treble today's levels by the end of the decade. This will mark the start of a once-in-a-generation programme of works worth between £30 billion to £50 billion over a 10 to 15 year period to upgrade the nation's roads to an entirely new standard.

2.11 The Government will build all available Highways Agency road projects, tackling the most congested parts of the network, subject to the usual tests of value for money and deliverability. This will include key strategic projects such as improving the A14 between Cambridge and Huntingdon – one of the most important strategic links for freight to access European markets; and introducing four lane capacity on the M4 from London to Reading – one of the most congested parts of the motorway network in the country. Table A.3, A.4 and A.5 at Annex A sets out the full pipeline of road projects that this investment will cover and the Highways Agency will set out more detail on the order and timing of works.

2.12 The Government will also add two lanes to the busiest motorways. This is equivalent to adding at least 221 miles of extra capacity to the busiest arteries of the country's transport network. This investment brings together the latest international techniques, such as Active

Traffic Management Systems, with British technology such as the Motorway Incident Detection and Automated Signalling (MIDAS) loop system which measures traffic flows in real time and predicts and manages traffic flows to keep the country moving and avoid costly tailbacks. This groundbreaking technology has a proven track record – since the introduction of the new system on the M42 in 2006, there has been a 22 per cent improvement in journey times, 10 per cent reduction in emissions as traffic flows more freely and zero fatalities on this stretch of road.

2.13 The Government will also begin to upgrade the majority of the national non-motorway network managed by the Highways Agency, with a large proportion moved to dual-lane and grade-separated road standard to ensure free-flowing traffic nationwide. As part of this, the Government will tackle some of the most notorious and long-standing road hot spots in the country. Roads which are widely recognised as being in a need of a solution to alleviate congestion and tackle enduring problems that have been avoided by successive governments. The Government will identify and fund solutions, initially through feasibility studies, to look at problems and identify potential schemes on the A303 to the south west, the A27 on the south coast, the A1 north of Newcastle, A1 Newcastle-Gateshead Western by-pass, connectivity to Leeds airport and trans-Pennine routes between Sheffield and Manchester. A list of feasibility studies is set out in Table A.3 at Annex A.

Protecting the environment

2.14 The Government is however committed to ensuring that any improvements to the network must be done in a way that supports the nation's overall quality of life and environment. Improvements in materials and design, together with new methods to mitigate and minimise the environmental impacts of roads, means that there is no longer a choice between a well-functioning road network and a well-protected environment.

2.15 Furthermore, the Government also remains committed to making sure transport plays its part in meeting carbon budgets and other environmental targets. Reducing carbon and other greenhouse gas emissions is at the heart of Government's vision for transport, and is a key component of sustainable economic growth. As technology develops, ultra-low emission vehicles (ULEVS) will increasingly be the way forward. These vehicles are now starting to come onto the market in significant numbers, and in the coming decade will become a common sight helping to improve air quality as well as deliver carbon savings. An important part of managing the road network over the next thirty years will be managing the shift to these new types of vehicles. The Government will continue to support the development of electric vehicles, including by offering a prize of up to £10 million dedicated Research and Development funding to develop long-life battery technology for electric vehicles. Details of this and other aspects of the Government's commitment to the transition to ULEVs will be set out in the ULEV strategy later this year.

Reforming the Highways Agency

2.16 To support this revolution in roads investment, drawing on the findings of the Cook Review, the Government will transform the way the Highways Agency is run, by turning it into a publicly-owned corporation with long-term funding certainty and flexibility. This will enable it to deliver capital efficiencies worth £600 million by 2020-21. This investment and these reforms will be underpinned by legislation to provide certainty to the public and industry that the Government will not walk away from this commitment. In the past, significant commitments have been made to roads investment but have not been delivered. This has exacerbated the stop-start investment that has been so detrimental to the country's road network, and the industry and public have lost confidence. The Government will therefore legislate to end the stop-start cycle, provide industry with the certainty it needs to deliver this transformation and guarantee an upgraded road network, fit for the future.

3 Rail

The UK has a rich and proud history of rail travel, but it cannot rely on Victorian infrastructure forever. The French and German high speed networks cover 3,320 miles, while China is planning over 10,000. The UK risks being left behind. The Government will therefore:

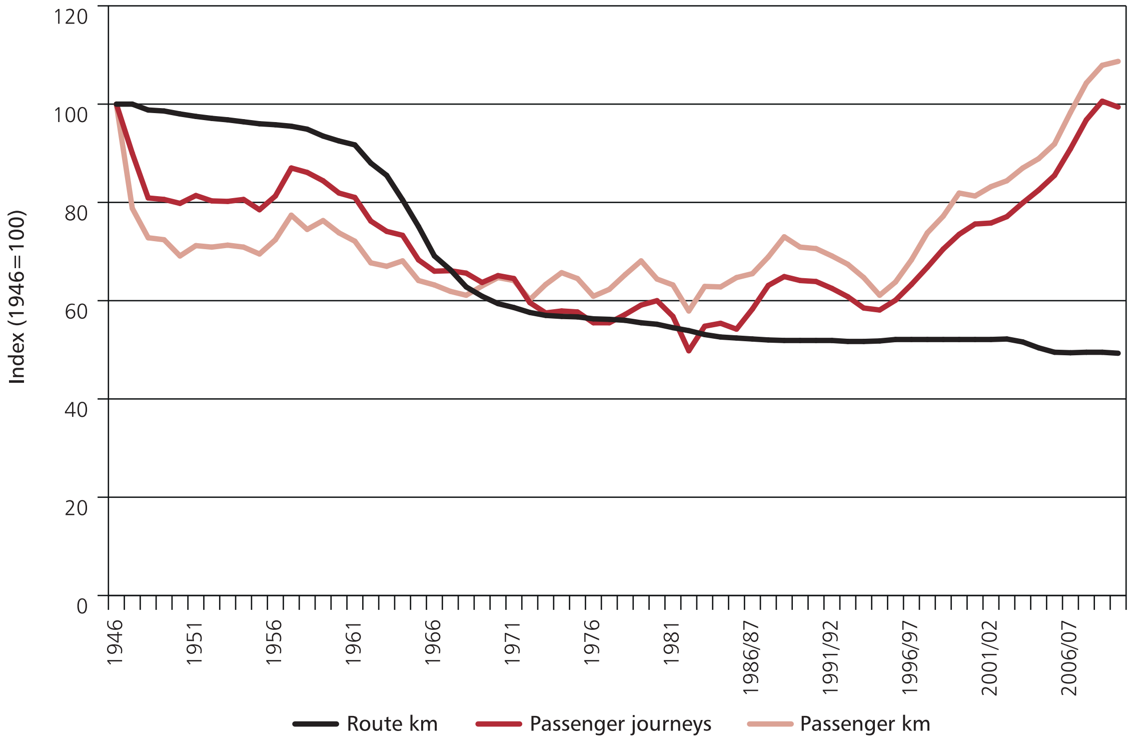
- build High Speed 2 (HS2) with trains travelling at up to 400 kilometres per hour, bringing two-thirds of the population of northern England within two hours of the capital. The Government is applying lessons from the successful delivery of the London 2012 Olympic Games to HS2 and is setting a funding envelope of £42.6 billion (in 2011 prices) for construction costs and £7.5 billion for rolling stock together with a strong cost control framework. The Government will also establish a HS2 growth taskforce chaired by Lord Deighton to capitalise on the growth opportunities across the country resulting from HS2;
- confirm support for Network Rail to invest over £9 billion in major rail projects between 2014-15 and 2018-19, such as contributing to Crossrail – currently the largest infrastructure project in Europe – and the Thameslink improvements in London; stronger east to west links from Liverpool to Newcastle through the Northern Hub, and also through opening the Bedford to Oxford line; electrifying the network on the Great Western line and a new 'Electric Spine' between Yorkshire, the Midlands and the south; and replacing diesel trains with faster, more reliable electric trains on the Great Western Line to Wales and East Coast Main Line to Scotland;
- carry out a funding and financing feasibility study for Crossrail 2 to determine how the project could be majority privately financed, with at least half of the overall cost coming from private sources; and
- devolve part of the West Anglia franchise to the Mayor of London to integrate rail services with the rest of the London transport network, and fund the electrification of the Gospel Oak to Barking rail corridor, to improve a key freight corridor and improving reliability for passengers.

3.1 The UK has a rich history of railway development, pioneering their construction during the nineteenth century and exporting them all over the world. Railways have powered our economy ever since. Today four million journeys are made every day on a network that spans the entire country. Railways now connect the UK to mainland Europe, with modern high speed trains capable of travelling at speeds of up to 300kph with journey times between London and Paris of just two hours fifteen minutes.

3.2 The latter half of the twentieth century was dominated by the growth in car travel and the rail investments of the Victorian era were allowed to deteriorate. Public subsidies to operate the rail network continued to grow, despite the controversial reductions in services resulting from the Beeching report. Passenger numbers decreased steadily through to the mid 1980s and the same period saw instability and short termism in government funding.

3.3 Privatisation in the early 1990s was a turning point for the rail network, enabling over £20 billion of new privately-led investment and thousands of new rail carriages. In the two decades since privatisation, passenger numbers have doubled and freight traffic has risen by 60 per cent creating one of the busiest mixed-traffic railways in the world as set out in Figure 3.A. Despite this growth in demand, the investment resulted in marked improvements in service levels: train performance has risen by over 10 per cent in the last decade and there are over a million more trains running on the network compared to ten years ago.

Chart 3.A: Changes in rail network length and passenger usage since 1946



Source: The McNulty Rail Value for Money Study

3.4 However demand on the rail network continues to increase, and it is clear that more capacity will be needed on the rail network if it is to be fit for purpose for the future. Growth of around 14 per cent in passenger demand and 22 per cent in freight is forecast for the next five years alone.[1] Demand for long distance rail travel in particular has doubled to 125 million journeys a year in the past 15 years and by the mid 2020s the West Coast Main Line will be full. In this context it is notable that Britain has just 68 miles of high speed line, while France has 2,035, Germany 1,285 and Turkey over 1,500.

Upgrading the rail network

3.5 This Government has a long term vision for the rail network to increase capacity, improve service levels, and drive efficiency. The Government's priorities for rail include:

- supporting economic growth by providing for additional capacity into London and other major cities;
- improving connectivity by increasing services and reducing journey times between cities;

[1] Office of Rail Regulation calculation *Periodic Review 2013*.

- improving reliability and reducing the environmental footprint of rail by continuing the rolling programme of electrification. By the end of the decade, around three quarters of passenger miles travelled in England and Wales will be on electric trains, compared to 58 per cent today;
- moving towards a railway which is financially sustainable to improve efficiency and value for money; and
- creating vital extra capacity on roads by supporting growth in rail freight.

3.6 The Government is supporting investment by Network Rail of over £9 billion in enhancements to the rail network between 2014-15 and 2018-19. This investment will deliver transformative projects such as contributing to Crossrail – the largest construction project in Western Europe and the Thameslink project to improve north-south links across London. It will also deliver improved east-west connections such as the Northern Hub and the Bedford to Oxford line; a large programme of electrification of the rail network to reduce journey times, make the rail network cheaper to run, and deliver better environmental outcomes; and provide new, faster and more reliable electric trains to replace outdated diesel trains. Overall, the Government has outlined plans to invest over £16 billion in the railways in the period 2014 to 2019 to support investment by Network Rail in maintenance of existing rail lines and to avoid unnecessary and unplanned delays, as set out in Box 3.A.

Box 3.A: Enhancements to the railway network in the period 2014-19

- the Northern Hub will create better east-west links across the north of England, from Liverpool to Newcastle, including trans-Pennine electrification, and major improvements allowing direct services across Manchester, including a new island platform at Manchester Piccadilly and a substantial modernisation of Manchester Victoria;
- completing Crossrail, the largest construction project in Europe and the first new underground line in London since the Jubilee Line Extension was completed in 1999. Services across central London will start in 2018 and will increase rail transport capacity in the capital by 10 per cent;
- the Electric Spine which will create a new electrified passenger and freight corridor linking the core centres of population and business in Yorkshire and the Midlands with ports in the south of England;
- completing the Thameslink programme to provide 24 services every hour in each direction through central London with new, longer and faster trains. This investment involves major station redevelopments at Kings Cross, Blackfriars and London Bridge, and a new station at West Hampstead;
- a direct east-west rail link between Oxford, Bicester, Aylesbury, Milton Keynes and Bedford that will reduce journey times to under one hour. Local authorities are now working closely with the Department for Transport to co-ordinate growth plans along nearly sixty route miles of revived railway to be delivered by 2017;
- electrification of the Great Western line and the Welsh valley lines to improve the connections between London, Reading, Cardiff, Swansea and the Welsh valleys; and
- investing in state of the art rolling stock with better, faster electric trains on the Great Western and East Coast lines to replace the old Intercity 125 trains, and new trains for Thameslink and Crossrail.

3.7 This support allows Network Rail to plan for the long-term, ensuring a service that is more responsive to passengers, better performing, more reliable and financially sustainable. It will allow better planning and programme management to ensure improvements are delivered on time and on budget. It will give developers and the supply chain greater visibility and certainty from now until 2018-19.

3.8 This investment certainty should also drive efficiency, and the Government is determined to ensure that the railways continue to provide better value for money for both passengers and taxpayers. The Government recognises that this can only be achieved if the rail industry works together, and last year published its command paper *Reforming Our Railways, Putting the Customer First* which sets out the Government's aim to reduce the annual cost of running the railway by £3.5 billion by 2018-19. Network Rail is expected to deliver its share of these efficiencies through the 20 per cent efficiency target set by the Office of Rail Regulation.[2]

3.9 The efficiency being driven throughout the rail industry allows the Government to support passengers by making successive decisions to hold regulated fare increases to RPI plus one per cent in 2012, 2013 and again in 2014, at the same time as investment in improving the railways increases. This decision to cap rises in regulated rail fairs in 2013 is expected to benefit over a quarter of a million annual season ticket holders who can expect to have an extra £45 back in their

[2] Further information on these targets can be found at: http://www.rail-reg.gov.uk/pr13/consultations/draft-determination.php

pockets. Many more holders of weekly and monthly season tickets could also see lower fares and some commuters will be over £200 better off over the three years.

3.10 In addition, this investment will also help to unlock local developments in communities across England and Wales. In the North West, Manchester City Council is capitalising on the Northern Hub to help drive its strategy to deliver up to 50,000 extra jobs in central Manchester. The Government is also asking Network Rail to carry out a feasibility study into electrifying the Lakes Line between Oxenholme and Windermere. In Oxfordshire and Buckinghamshire local authorities are revising land use plans to stimulate and manage developer proposals for new housing and businesses in response to the East-West Rail project.

Bringing rail into the 21st century

3.11 Despite this investment, and the benefits it will bring for passengers, the Government recognises that more transformative changes will be required to meet growing demand. This is why it has taken the historic decision to build a new high speed rail line – High Speed 2.

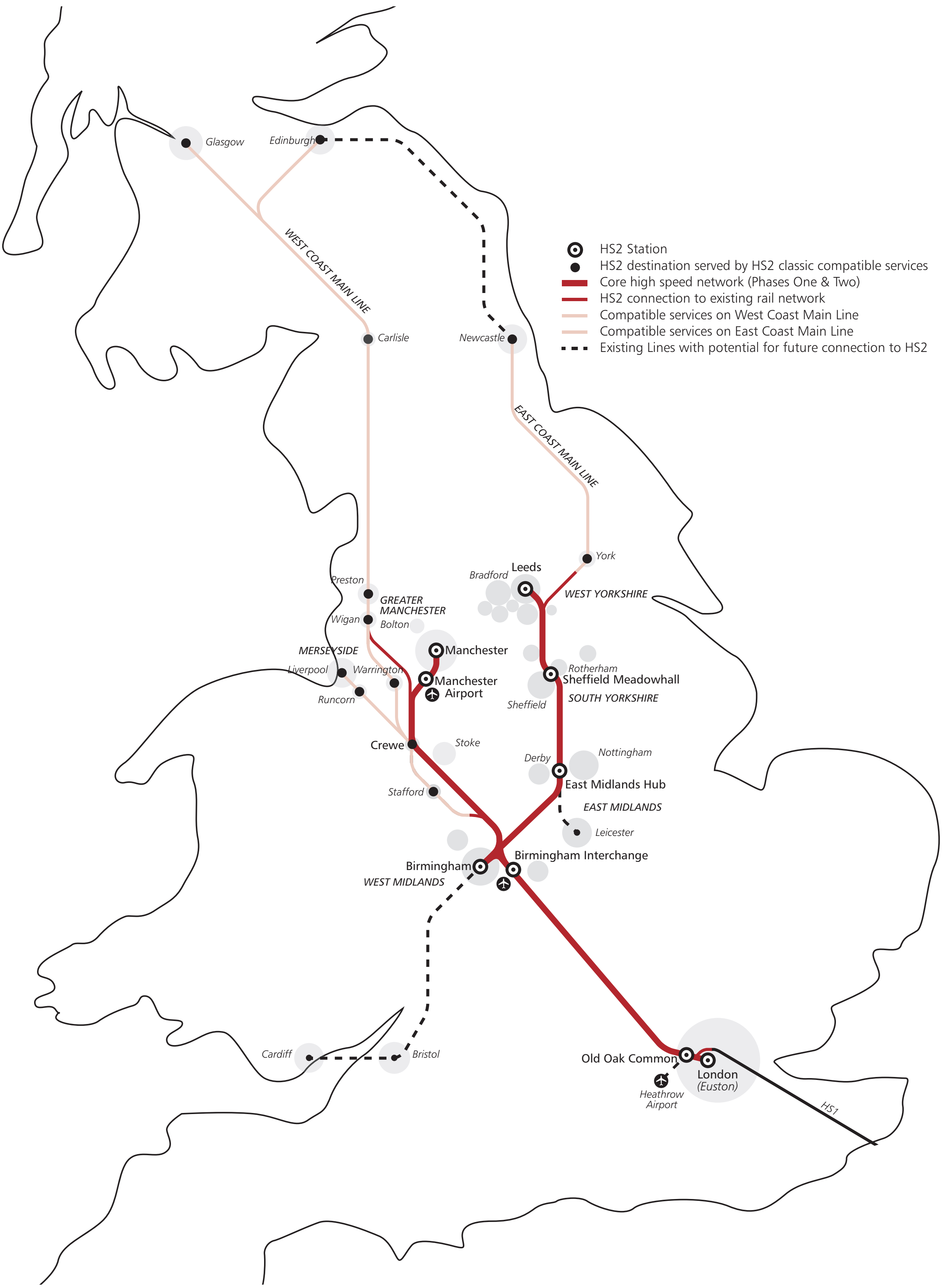
3.12 HS2 will be the biggest infrastructure investment in the UK for a generation, connecting our biggest cities quickly and reliably. It will vastly reduce journey times for over a quarter of a million passengers each day, and will provide the new transport capacity the country needs to meet ever growing demand. The substantial additional capacity provided will relieve pressure on existing lines, allowing them to be used for more freight and local traffic, which in turn will help take the strain off the national road network.

3.13 HS2 will create a new high speed rail network linking the north and south of the country. It will include nine new high speed rail stations – at London Euston, Old Oak Common, Birmingham International, Birmingham Curzon Street, Manchester Airport, Manchester Piccadilly, East Midlands Parkway (Toton), Sheffield Meadowhall and Leeds New Lane. In addition to the stations listed above, connections will be provided at various points across the HS2 network onto existing rail lines, enabling high speed trains to continue on to eight out of the UK's ten largest cities. This means the vast majority of the country's major urban economies will be directly connected with high speed services with trains travelling at speeds of up to 400kph.

3.14 The new network will be an engine for growth that will help support 100,000 jobs across the country and help secure the country's future prosperity.[3] It will help rebalance the economy, bringing two thirds of the population of the North of England within two hours journey time from London.

[3] Department for Transport, *High Speed 2 – a catalyst for high speed Britain*, January 2013

Figure 3.A: Britain's future high speed rail network



Source: HS2 Ltd

3.15 The Olympics showed the world that Britain can deliver world-class major infrastructure projects. Lessons from those experiences show that, in order to support successful project management and delivery, the Government needs to make early decisions about how it will fund future capital investment.

3.16 The Spending Round provides the long term certainty required to build High Speed 2 by setting a funding envelope of £42.6 billion (in 2011 prices) for construction costs and £7.5 billion for rolling stock. This includes not just the cost of constructing the stations and railway infrastructure but also the cost of buying the high speed trains. This will provide a clear funding envelope within which the Government will aim to deliver the new project. In addition, in order to ensure the project can start construction in the next Parliament, the Government is setting a detailed budget for HS2 from 2015-16 to 2020-21 worth over £16 billion. The Government has learned from the successful delivery of the London 2012 Olympic Games, and is setting a cost control framework to ensure the project remains affordable to the nation over the coming two decades.

Upgrading London's rail infrastructure

3.17 Effective transport infrastructure in London benefits not just London but the whole country. Last year over 60 per cent of all rail journeys started or finished in London. On a typical weekday over half a million people arrive by rail into the capital during the morning peak hours, and by 2031 the Greater London Authority estimates the London population to be 9.66 million, up 1.5 million from today's levels. It is therefore imperative that the Government and Transport for London continue to invest in London's rail infrastructure. To support this, the Government is providing over £5.8 billion in capital grant and a further £3.8 billion of borrowing power between 2015-16 and 2020-21 to Transport for London which will enable them to continue to invest in critical transport infrastructure including Crossrail and the Tube Upgrade Programme.

3.18 This investment will allow the completion of Crossrail on time and within budget. Crossrail represents the first new underground line in London since the Jubilee Line Extension was completed in 1999. Services across central London will start in 2018 and, together with the tube upgrades, will increase rail transport capacity in the capital by 10 per cent. The extra capacity created by Crossrail, together with the Tube Upgrade Programme, and the Thameslink programme, which is radically increasing train capacity on one of Europe's busiest stretches of railway, will serve to reduce congestion across London between 2007 and 2021.[4]

3.19 This investment is transforming the capacity of London to cope with growing demand over the next two decades. However, consistent with the new long term approach, the Government and Transport for London will continue to plan for future capacity needs. The proposal to build a second Crossrail line would create a new high-frequency, high-capacity rail line running south west to north east across London. This proposal could help London's transport network to support growth in the long term by addressing crowding at key transport interchanges and offering more direct, fast, frequent services that are not available at present. The Government is committed to revising the safeguarding for the route.

3.20 However, the estimated cost of Crossrail 2 is such that the Government and Transport for London will need to work together to determine whether it is possible to find the majority of the funding from private sources. To that end, building on the work of London First, the Government is providing £2 million to fund a detailed study of potential options for the funding and financing of Crossrail 2. This study will seek to find ambitious levels of private funding, with at least half of the overall cost coming from private sources.

[4] London First, *Crossrail 2 – supporting London's growth*, February 2013

3.21 The Government is also investing £115 million to electrify the Gospel Oak to Barking rail line, a key cross-London freight and passenger corridor linking Tilbury and the new London Gateway ports to the Midland mainline and electrified networks, and will explore the case for extending the line to Barking Riverside to unlock potential housing development. In line with our commitment to give local partners a greater say in how their rail services are run, the Government has decided in principle to devolve part of the West Anglia rail franchise to the Mayor of London, aiming for the transfer to take place by the end of 2015.

4 Energy

Securing investment in energy infrastructure is essential for the UK to compete in the global economy. The Government is taking action to provide the support and policy certainty needed to enable up to £110 billion of private sector energy investment which will be needed over the coming years. In particular the Government:

- **is announcing its proposals for the prices that will be available for renewable energy generation from next year.** These 'strike prices' will be stable and legally binding under new Contracts for Difference for large scale generation. They will be subject to consultation and state aid approval. For the first time they will be at a set rate rather than dependent on unpredictable wholesale prices, making investments in new technologies such as wind power less risky and more attractive;
- **will implement a regime that will make sure that there are enough power stations available when we need them**. These payments will be made through what is known as a capacity market and will be allocated by auctions, which will start in 2014 for delivery in 2018-19;
- **will publish a comprehensive package of reforms to enable shale gas exploration** including proposals for the tax regime, for planning, and for community benefits, to give the UK a world-leading regime for investment;
- **is publishing the British Geological Society study on the amount of shale gas resources in Bowland Shale**. This shows that the total volume of gas in the Bowland Hodder shale in northern England is some 1,300 trillion cubic feet (central estimate). This compares to the recent US Energy Information Administration estimate on the UK's shale gas resources of around 600 trillion cubic feet;
- **is allocating additional capital of £800 million in 2015-16 for the Green Investment Bank (GIB)**. This will enable it to invest in low carbon infrastructure projects including renewable energy, waste management and energy efficiency;
- is taking another step forward in the UK's programme of enabling a new generation of nuclear power stations by determining that **the proposed new nuclear power station at Hinkley Point C is eligible for a UK guarantee**; and
- is allocating **£75 million of capital for investment in innovative energy projects**, including piloting approaches to permanently reducing demand for electricity.

4.1 Energy infrastructure is essential for economic growth. Since before the industrial revolution transformations in how energy is generated, transported and consumed have underpinned technological progress.

4.2 Electricity, in particular, is essential for the transport, technology and communications infrastructure that is key to the UK's success in the global race. Since liberalisation of energy markets in the 1990s private capital investment has driven improvements in electricity generation, transmission and distribution. Most recently, the National Infrastructure Plan identified a pipeline of over £310 billion of potential infrastructure projects, the majority of which are in the energy sector and are expected to be funded by private sector investment.

4.3 However the electricity market in the UK has required major changes to attract this investment, particularly given the new demands of emissions reductions. In a number of critical areas the climate for investment had been marred by piecemeal, short-term or inconsistent decision-making. For example:

- while mechanisms were introduced to enable renewable generation to compete in the market, this left exposure to power price risk. For investors in technologies such as offshore wind, which face substantial initial investments but very low running costs, this can be problematic;
- meanwhile government policy on new nuclear power stations has been subject to frequent changes and lacking long-term certainty in the last two decades, with the result that no new nuclear power station has been built in the UK since Sizewell B opened in 1995 and almost all nuclear power stations are due to close in the next decade; and
- support available for low-carbon generation was not considered within a long-term funding envelope, meaning that investors have not had certainty and consumers have not been protected.

4.4 The fall out from the financial crisis further exposed the impact of political uncertainty on the sector, as major projects struggled to secure the necessary financing.

4.5 The Government has taken decisive action to address these issues and provide a sustainable, long-term basis for investment in electricity. It is determined to ensure that electricity supplies are secure, produce fewer emissions, and above all are affordable for consumers. It has:

- introduced legislation to provide new support for low-carbon electricity generation through Contracts for Difference which will provide investors in technologies such as wind for the first time with stable, predictable prices and protect them from the risks associated with wholesale volatility;
- implemented the levy control framework and set a long-term funding envelope for support available for investment in low carbon generation, to up to £7.6 billion (in 2012 prices) in 2020-21. This provides unprecedented certainty, stretching well beyond existing spending plans;
- created further incentives for low carbon investment by implementing the Carbon Price Floor;
- borne down on costs and sought opportunities to ensure that investment is efficient. For example Ofgem found £5 billion of savings in agreeing up to £30 billion of investment in electricity and gas networks through the price control mechanism to 2021;
- invested in low carbon infrastructure projects through the Green Investment Bank (GIB). The GIB seeks to leverage additional private finance through its lending and aims to multiply the £3 billion lent though its original capitalisation; and
- recognised the need to accelerate delivery of schemes in the shorter term. Therefore the Government is using the strength of its balance sheet to provide the £40 billion UK Guarantees facility for infrastructure projects. A guarantee worth £75 million

has already been provided for the conversion of part of the Drax power station from coal to renewable biomass.

4.6 The Government is legislating to ensure that consumers get the best possible value for their bills by reducing the number of tariffs available and requiring the automatic move of customers from poor value tariffs to cheaper deals. This strengthens Ofgem's Retail Market Reforms.

4.7 The 2013 Spending Round continues these commitments beyond 2014-15 including through extra investment in the GIB, funding for Carbon Capture and Storage, capital investment in nuclear decommissioning at sites such as Sellafield and in innovative energy projects, and the next stage of the Renewable Heat Incentive. In addition the Government is taking further steps to provide the basis for long-term investment in UK energy infrastructure.

Gas-fired electricity generation and the capacity market

4.8 Power stations that use gas to generate electricity are an important part of the electricity generation system in the UK. They provide a substantial proportion of the total electricity generated: around 40 per cent in 2011. Because their electricity output can be increased or decreased according to need they are particularly important in dealing with changes in demand for electricity between, for example, colder or warmer days.

4.9 Gas-fired generation is likely to continue to play a major role in producing electricity over the coming decades, alongside other technologies. Modelling by DECC for the Gas Generation Strategy suggests that up to 26 GW of new gas plant could be required by 2030. Should the Government decide to revise up the fourth carbon budget, which sets limits on greenhouse gas emissions between 2023 and 2027, then as much as 37GW of new power generation capacity could be required. This means that new investment will be needed to keep existing power stations running efficiently and reliably, and to build new plant.

4.10 Gas-fired power stations are relatively cheap and quick to build, and investment in new gas plant will offer employment opportunities throughout the country.

4.11 The gas strategy identified however that there are a number of obstacles to new investment. In the short term the relatively low price of coal means that overall wholesale electricity prices are suppressed and so the profitability of gas plant is lower than expected. Looking to the longer term developers find it difficult to assess the likely pattern of wholesale prices when more renewable power generation is operating. Wind power, for example, has very low running costs but does not generate all of the time. With more wind power gas investors therefore face increased uncertainty about how often and at what levels their power stations will be generating, and what the prices will be in the market.

4.12 Unless there is sufficient investment to maintain and replace gas capacity the UK risks shortages in supply. This would mean that there would be an unacceptable risk of interruptions in electricity supplies to businesses and households. To counter this, the Government is taking action by implementing a new mechanism which will provide investors with confidence that they will be paid for power stations which may not generate all the time, but which are essential to protect against the risk of power cuts. This is known as a capacity market.

4.13 In a capacity market generators and other providers of capacity (such as demand side response and storage) will be paid a predictable revenue stream for providing reliable capacity. In return, they will be obliged to deliver energy at times of system stress, and will be penalised if they fail to do so. In this way, a capacity market will directly tackle the uncertainty in the electricity market by explicitly paying for resource adequacy and ensuring adequate investment to minimise the chances of shortages of supply.

4.14 The Government is legislating for the introduction of a capacity market and has decided that the first auction will be run in 2014, for delivery of capacity in the winter of 2018-19. This will include demand side reduction projects.

Low-carbon generation and contracts for difference

4.15 Investments in low-carbon generation technologies such as renewables, nuclear and carbon capture and storage will in future be underpinned by the new long-term, legally binding Contracts for Difference (CfDs). For the first time these provide generators with protection from fluctuations in the wholesale electricity price, which provides much greater certainty about future revenues. This reduces risk and helps lower the cost of capital. They will also protect consumers from high bills by clawing back money from generators if the market price of electricity rises above the strike price.

4.16 The arrangements for implementing CfDs are currently in front of Parliament in the Energy Bill. In order to facilitate investment decisions the Government has published draft strike prices for renewable technology, ahead of schedule. Table 4.A sets out the prices for key technologies. These prices will be finalised in December following consultation and will provide the basis for long term investment decisions.

Table 4.A: Draft strike prices for renewable technologies

Technology (£/MWh 2012 prices)	2014-15	2015-16	2016-17	2017-18	2018-19
Onshore Wind	100	100	100	95	95
Offshore Wind	155	155	150	140	135
Tidal	305	305	305	305	305
Wave	305	305	305	305	305
Biomass Conversion	105	105	105	105	105
Solar Large	125	125	120	115	110

4.17 These prices are broadly comparable to the support levels available under the Renewables Obligation but include adjustments to account for the increased certainty generators have from not bearing wholesale price risk, meaning that they offer a better deal to consumers. This will deliver savings to consumers of around £5 billion to 2030, relative to the current regime.

4.18 The analysis used to calculate the strike prices will be published alongside the draft delivery plan in July, and be followed by publication of further detail on the contract terms and how CfDs will be allocated. This will give investors further sight of the CfD process, allowing them to move with certainty to bring about the vital energy infrastructure that the UK needs.

4.19 In conjunction with this process the Final Investment Decision enabling programme allows investors who require early certainty on projects to enter into discussions with government. This will mean that any investment hiatus while the new arrangements come into force can be avoided.

Shale gas: the context

4.20 Unconventional gas reserves, and particularly shale gas reserves, have the potential to have a significant impact on future gas markets. This has been apparent in the United States. Between 2007 and 2012, US net gas imports fell by 55 per cent. By 2020, the US is expected to be a net exporter of natural gas.[1] This has increased US security of supply and balance of payments.

4.21 In 2012, the US shale gas industry accounted for over 600,000 jobs and paid almost $20 billion in taxes.[2] The price of gas in the US has also fallen dramatically, benefitting many other areas of the economy.

4.22 Shale gas in the US has also had significant environmental benefits. Between 2005 and 2012 electricity generation from coal fell 25 per cent and that from gas rose 37 per cent, lowering the CO2 emissions of the US substantially.[3]

4.23 The extent to which the US experience can be replicated in other countries, including the UK, is uncertain. Technical differences in reserves, in supply chains, and in geography and population patterns above ground may all have an impact. However the Government is committed to ensuring that a world-leading framework for investment is in place so that if the conditions are right the industry can prosper.

4.24 The development of the US industry was underpinned by decades of work between the US Government and the private sector to develop the technology, establish regulatory regimes and attract private capital. It has only been in recent years that the industry has taken off, but the benefits to the US economy have already been substantial.

4.25 The Government has been working closely with regulators and the industry to provide a similarly strong foundation in the UK.

Shale gas in the UK

4.26 Scientists from the British Geological Survey (BGS) have estimated that the total volume of gas in the Bowland Hodder shale in northern England is some 1300 trillion cubic feet (central estimate). This compares to the recent US Energy Information Administration estimate of the UK's shale gas resources of around 600 trillion cubic feet. The BGS study is the first in the UK to provide investors, operators and regulators with an indication of where to target future exploratory drilling, which will be required to determine the extent of gas that can be technically and commercially recovered.

4.27 The shale gas industry in the UK is the very early stages of development. There are several companies which have shown an interest in drilling exploratory wells and only one that has fracked a well so far. The Government welcomes the recent investment in the industry by Centrica, which demonstrates the attractiveness of Bowland Shale as an investment proposition. The industry estimates that it will have to drill 20 to 40 wells over the next 2 years in order to establish the commercial viability of extracting shale gas.

4.28 Drilling for gas is not a practice that is new to the UK. UK companies have for many decades been extracting natural gas, both onshore and offshore, and have established a well regulated, licensed and taxed industry. The industry has significant experience in situating these

[1] *Getting Shale Gas Working,* Institute of Directors, May 2013

[2] *Getting Shale Gas Working*

[3] *Short Term Energy Outlook,* United States Energy Information Administration, 2013

developments in sensitive areas, and will use this knowledge and best practice when developing shale gas sites.

4.29 The long established UK oil and gas industry also shows what could be possible were shale gas production to be successful. Over the four decades of production, North Sea oil and gas has produced more than first expected, and its substantial contributions to the economy have also lasted longer than was expected. This meant that UK production was able to meet the vast majority of UK demand, lowering imports and improving the balance of payments.

4.30 Like the US, gas production has allowed gas-generated electricity to replace a substantial portion of coal-generated electricity, lowering emissions. It has also brought in considerable tax receipts to government and has seen investment in areas such as Aberdeen which has benefitted from jobs and infrastructure.

4.31 While it is not clear how the scale of the shale industry will match against the North Sea the Government is committed to putting in place the conditions that will allow it to reach its full potential.

Shale gas: government actions

4.32 The Government will publish in July 2013 a package of measures designed to kick start the shale gas industry in the UK. The package will include:

- new guidelines on the planning and permitting regime for shale gas developments to make the process for approving developments clearer;
- a consultation on tax incentives to encourage exploration of potential shale areas; and
- an industry-led scheme of community benefits so that communities are rewarded for their part in the UK's energy sector.

4.33 The Department for Communities and Local Government (DCLG) will publish, by 18 July, up to date guidance for industry, planning authorities and communities on how shale gas (and other onshore oil and gas) developments should proceed through the planning system. This guidance will clarify the interaction of the planning process with the environmental and safety consenting regimes. DCLG will also be clarifying that the boundary of a site for a planning application should reflect established and long standing practice for onshore oil and gas development.

4.34 The Government supports the development of the unconventional gas sector in a way that maintains protection of the environment. The Environment Agency has published its own statement of actions to streamline and simplify the regulation of exploratory activity by the oil and gas industry. Whilst maintaining environmental protection, the Environment Agency will:

- immediately extend the remit of its shale gas unit to include all onshore oil and gas exploration, ensuring a single point of contact for the industry;
- publish draft technical guidance for consultation by the end of July, setting out its requirements of operators and giving them certainty;
- significantly reduce the time it takes to obtain environmental permits for exploration. The Environment Agency will:
    - by August, develop a single application pack for mining waste and radioactive substances permits, to streamline the process;

- by September, issue permits within the standard 13 week period. In some cases this could be as little as six weeks; and
- by February 2014, issue permits within 1-2 weeks, by developing standard rules for onshore oil and gas exploration activities.

4.35 The Government will consult by 18 July on a "pad allowance" for shale gas. This proposal has been designed to incentivise early investment in exploration; maximise the economic production of the UK's shale gas reserves; and ensure a fair return to the taxpayer.

4.36 The proposed allowance would operate similarly to existing field allowances, by exempting a portion of production income from the supplementary charge – reducing the effective tax rate on that income from 62 per cent to 30 per cent. The amount of production income exempt from the supplementary charge would be a proportion of cumulative capital expenditure incurred on a shale gas pad (the drilling and extraction site).

4.37 This proposal recognises the high upfront costs associated with shale gas projects and means that greater support will be offered to the industry in its early stages when costs per pad are likely to be higher. In addition to consulting on the structure of the shale gas allowance, the Government will seek views on extending the scope of the allowance to all onshore hydrocarbons. The Government will also welcome views on the longer-term potential for offshore shale gas production and will keep these offshore developments under review.

4.38 The industry trade body UK Onshore Operators Group (UKOOG) has published a charter setting out their commitments for how they engage with communities that host them. This includes commitments on consulting honestly and openly with local people in advance of any application for planning permission, providing communities with a continued point of contact with developers, organising logistics with consideration to minimising disruption during operations and a commitment to employing local workers and suppliers where possible.

4.39 However, it is also vitally important that communities benefit directly from successful developments in their area. The industry has come forward with generous proposals, learning lessons from other community benefit schemes in the energy sector, so that both people living locally to a site and the wider region can share in the proceeds.

4.40 Operators will commit to provide £100,000 in community benefits at exploration phase, per well-site where hydraulic fracturing occurs. They will commit to sharing their proceeds with communities, providing one per cent of revenues to communities that host them. This will ensure that communities are rewarded for hosting shale gas developments and playing their part in meeting the UK's future energy needs.

4.41 UKOOG will keep this under review as the industry develops, and will publish evidence each year of how they have met these commitments.

The Green Investment Bank

4.42 The GIB was established in 2012. The Government has committed to provide it with £3 billion of capital in order to leverage investment in markets that have a strong financial and wider impact, including energy efficiency, offshore wind and energy from waste. Since 2012 it has committed £635 million.

4.43 The Spending Round allocates additional capital of £800 million in 2015-16 for commitment by the GIB, up to £500 million of which can be borrowing from the National Loans Fund. The GIB has a full pipeline of further commercial low carbon infrastructure projects under active consideration including ventures in renewable energy, waste management and energy efficiency. This additional capital will allow it to continue to make investments in these areas.

Enabling new nuclear power stations

4.44 Nuclear power is a secure low carbon form of energy that increases the diversity of energy supply. New nuclear power stations could help the UK reduce its greenhouse gas emissions by 80 per cent by 2050 and secure its energy supply.

4.45 Nuclear power has been part of the UK's energy mix for the past five decades but most existing nuclear power stations are currently scheduled to close by 2023. The Government believes that new nuclear power stations should have a role to play in this country's future energy mix, alongside other low-carbon sources and that it is in the public interest to allow energy companies the option of investing in new nuclear power stations.

4.46 The Government has therefore taken significant actions to facilitate investment in new nuclear, including reforming the planning regime through the National Policy Statements, and improving the regulatory regime through setting up the Office for Nuclear Regulation (ONR) and the Generic Design Assessment (GDA) process. In response the nuclear industry has plans to develop around 16 GW of new nuclear power. Like other low carbon technologies, nuclear power will also be eligible for CfDs.

4.47 Chapter 10 sets out steps the Government is taking through the UK Guarantee Scheme and in particular that it has decided that the proposed new nuclear power station at Hinkley Point C is eligible for a UK guarantee.

5 Science and innovation

Successful economies need constant innovation to stay ahead of their competitors. The UK's base of scientific capability and its record of innovation and new ideas is a significant national asset. Sustaining this advantage requires continual investment and long-term stability. To ensure that the UK has the facilities to develop its world-class research base and meet the Government's ambition of being the best place in the world for scientific research, the Spending Round commits to maintain resource funding for science in cash-terms at £4.6 billion in 2015-16, as well as providing a real increase of £185 million in resource funding for the Technology Strategy Board (TSB) to support innovation. The Government will increase science capital funding in real terms from £0.6 billion in 2012-13 to £1.1 billion in 2015-16, and in line with inflation to 2016-17. Furthermore, it provides long-term stability for science infrastructure over the next Parliament, by setting an overall capital budget growing in line with inflation each year to 2020-21.

These commitments allow the Government to:

- **deliver further world leading research facilities, supporting UK capabilities across the Eight Great Technologies.** This will include a national network of Big Data institutes, major upgrades and new facilities at Harwell, a polar satellite communication system, major investment in autonomous robotics and investment in research facilities to tackle dementia;
- **strengthen links between business and academia** by extending the Research Partnership Innovation Fund (RPIF) to 2016-17, making available at least £100 million per year of match funding to leverage private funding for scientific infrastructure;
- **help new businesses bridge the gap between scientific discovery and commercial application**; including through continued investment in Catapult Centres which will transform "high potential" ideas into new products and services to generate economic growth; and
- **invest in the development of high priority projects** such as the Synergistic Air Breathing Rocket Engine (SABRE) and a new High Performance Computer for the Met Office.

Science and innovation in the global race

5.1 Science and innovation are key drivers of economic growth and the right science and innovation policy is essential to strengthen and rebalance the economy for the future. Public investment in science requires a balance of continued support for basic, curiosity-driven research with more directed support in pursuit of specific challenges.

5.2 To maximise the benefit for growth, the Government has selected Eight Great Technologies where the UK has a comparative and competitive advantage.[1] These have been identified by scientific experts as a framework to help focus investment in areas where the UK has a distinctive capability and where new technologies are emerging with identifiable commercial opportunities.

5.3 A strong, well-planned scientific infrastructure base and continued public support provides opportunities for the UK to be at the cutting edge of scientific discovery and innovation. However, this will not be achieved by government investment alone, but through partnership with industry, universities and charities.

Creating partnerships for growth

5.4 To maximise return for the taxpayer and strengthen the economy, public and private funding needs to be mutually supportive. Investing together in the long-term development of science and innovation infrastructure will ensure the UK's scientific research capability remains among the best in the world. This will in turn attracts both foreign investment and leading scientists from across the globe.

5.5 The Research Partnership Investment Fund (RPIF) is designed to foster this collaborative approach. Through RPIF, the Government has been able to leverage significant private and charitable sector investment. Over £1.1 billion has been raised so far, from a Government investment of £300 million, to fund a range of collaborative research and development projects including:

- a new National Automotive Innovation Campus, a collaboration between Jaguar Land Rover, Tata Motors European Technical Centre and the University of Warwick;
- a 5G Centre for the development of the next generation of cellular communication involving the University of Surrey and global mobile communications leaders; and
- a Materials Innovation Factory, a collaboration between the University of Liverpool and Unilever.

5.6 The Government will extend RPIF to 2016-17, making available at least £100 million per year of match funding to leverage private funding for scientific infrastructure.

Translating scientific excellence into commercial success

5.7 The Government has also been tackling the challenge of translating scientific excellence into commercial success, often referred to as the 'Valley of Death'. Through the Technology Strategy Board, the Government is creating a network of Innovation Catapults to help bridge the gap between discovery and commercialisation. These centres help to bring new innovations and technologies to existing and emerging markets – creating a critical mass of UK business and research. The seven Catapults announced to date have been: High Value Manufacturing, Cell Therapy, Offshore Renewable Energy, Satellite Applications, Connected Digital Economy, Future Cities and Transport Systems.

5.8 The Government is investing an additional £185 million in resource funding for the Technology Strategy Board (TSB) in 2015-16 to support innovation, including expanding the number of Catapult Centres to areas including energy systems and stratified medicine, and continuing the Biomedical Catalyst.

[1] *Eight Great Technologies*, David Willetts, Policy Exchange, 2013

5.9 Long term collaboration with key industrial sectors is important to maximise the impact of the UK's scientific excellence. At Budget 2013 the Government announced a £1.6 billion fund for sector support that will be matched by industry investment in research and development. Through the Government's Industrial Strategy, this will support new and ongoing expertise to develop and entrench vital sectors. Of this, £1.05 billion will fund an Aerospace Technology Institute for industry research and development over seven years. The Life Science sector strategy was published in December 2012 and the aerospace, nuclear and oil and gas strategies were published in March 2013.

The Government's commitment to science

5.10 The Government has demonstrated its commitment to investment in science and innovation by providing increased funding at every fiscal event this Parliament. An additional £1.4 billion has been provided for science capital since the Spending Review 2010, bringing total capital investment to £3.5 billion over the period from 2011-12 to 2014-15. This funding has enabled the creation and upgrade of world leading scientific facilities across the country, and complements the £4.6 billion science ring-fence for revenue expenditure. This includes funding for projects such as:

- the Crick Institute in London, a world-class facility for tackling the most challenging scientific questions underpinning health and disease; the Graphene Hub in Manchester, which will act as a catalyst for new business;
- Pharmavision – the creation of a large scale facility in Teeside for the development of biologic medicines;
- investment in science campuses, including the Babraham Research campus in Cambridge, the Norwich Research Park, Harwell in Oxfordshire and SciTech in Daresbury;
- the development of the UK's e-infrastructure in High Performance Computing to support research across the scientific disciplines including Leicester, Cambridge, Durham and Edinburgh Universities; and
- a new headquarters for the Square Kilometre Array (SKA) at Joddrell Bank, Manchester, which will handle a flow of data exceeding the current flow of all information across the world wide web.

Future funding

5.11 The Government will increase science capital funding in real terms from £0.6 billion in 2012-13 to £1.1 billion in 2015-16, and in line with inflation to 2016-17. Furthermore, it will provide a long-term commitment for science infrastructure over the next Parliament, by setting an overall capital budget growing in line with inflation each year to 2020-21.

5.12 This will allow the Government to invest in the upgrade and refurbishment of essential research infrastructure and provide investment in new facilities that will drive the Eight Great Technologies, allocating funding according to scientific excellence in projects such as:

- Big Data – a new national network of Big Data institutes, including high performance computing;
- Space – polar satellite communication system which will greatly improve real-time communications from polar regions to drive research;

- Robots and Autonomous Systems – developing autonomous robotics through investment in research facilities and business clusters, to support the development of the innovation, production and service sector and to grow both the UK market and export opportunities;
- Synthetic Biology – investment in biological imaging technologies which are key underpinning technologies for life sciences;
- Regenerative Medicine – clinical investigation centres that bring together a full suite of next generation, state of the art technologies to clinical research adjacent to patient based research, integrating a range of key technologies;
- Agricultural Technologies – data centres for bio-sciences including a Centre of Excellence in crop genomics and bioinformatics;
- Advanced Materials – investment in research facilities to partner with industry in developing materials and production techniques critical for the UK's manufacturing base and inward investment; and
- Energy Storage – accelerating the development of national scale electricity storage by bringing together industrial partners and academia to build on current research.

5.13 This commitment will also allow investment in projects and programmes which will keep the UK at the forefront of new technologies by investing in:

- the development of the Synergistic Air Breathing Rocket Engine (SABRE);
- a new High Performance Computer for the Met Office;
- incubator facilities for start-ups and spin-outs which build on the UK's outstanding research capabilities, and link research with commercialisation;
- providing Higher Education Institutions with infrastructure capital to ensure they have access to the latest capabilities; and
- as part of this commitment, the Department of Health will provide £150 million of capital investment in 2015-16 to fund health research infrastructure in the areas of dementia, genomics and imaging.

5.14 The Government has agreed a capital budget for the Department for Business, Innovation and Skills of £2.2 billion in 2015-16 and 2016-17. As well as investment in science infrastructure, this will support investment in the higher and further education sectors.

5.15 These long-term commitments will give the research community, universities and industry the certainty they need to invest for the long-term and ensure that the UK's cutting edge scientific research and innovation puts us at the forefront of the global race.

6 Housing

Housing is an integral part of the UK's economic and social infrastructure, supporting labour mobility and providing a direct benefit to growth and jobs as new homes are built. The Government is taking decisive action to revive the housing market, boost construction and support families, developers and institutions to invest in new homes. In particular the Government:

- **will invest £3.7 billion between 2013-14 and 2015-16 in England and provide up to £12 billion of guarantees across the UK, through Help to Buy.** This will enable the current generation to enjoy the benefits of home ownership in the same way as their parents have. The Help to Buy: equity loan scheme has supported over 4,000 new build home reservations in its first two months and will support up to 74,000 sales by 2015-16. The Help to Buy: mortgage guarantee will be in place by January 2014;
- **is providing over £3.3 billion of new funding for affordable housing between 2015-16 and 2017-18 which will help support total delivery of 165,000 new affordable homes in England over the next three years**; and is providing **10 year certainty on social rents;**
- **will radically overhaul the way that public land is sold, by centralising disposals in a single agency.** Alongside significant planning reforms, including the National Planning Policy Framework, this will lead to a step-change in the supply of land for development; and
- **is providing £1 billion of loan finance between 2013-14 and 2015-16, as well as the use of guarantees, to support new build private rented homes in England.**

6.1 A well functioning housing market is critical in supporting growth and competitiveness. People need homes that are affordable and within travelling distance of jobs and amenities. The economy needs a housing market that is stable, secure and which supports labour market flexibility.

6.2 The UK housing market, however, faces longstanding issues. Housing supply has failed to keep up with household formation levels for decades, leading to rising house prices and making good quality housing unaffordable for many. Between 1999 and 2010, the UK built fewer new homes per 1,000 inhabitants than Germany, almost 30 per cent fewer than the Netherlands and over 40 per cent fewer than France.[1]

6.3 The Government's aims for the housing market are to:

- ensure that a stable macroeconomic framework gives individuals, developers and investors the confidence to invest in housing and the infrastructure that supports it;

[1] *Hypostat 2011*, European Mortgage Federation, 15 November 2011

- provide significant support to the housing market to support home ownership, investment and new supply, ensuring that current generations have the ability to own their own home in the way that their parents did, whilst improving the framework to support investment into new build rented homes;
- improve the way that land markets operate to close the gap between housing supply and demand, tackling longstanding failures that have held back the building of new homes and undermined investor and developer confidence;
- ensure that incentives are in place to promote development so that communities are rewarded rather than penalised for growth; and
- de-regulate and simplify the system in order to make more development viable and boost supply.

6.4 To support these objectives, the Government has put in place a major package of support for the housing market alongside historic supply side and structural reform. In total, the Spending Round confirms that over £5.1 billion of investment is being made available to support housing in England, from 2015-16 to 2017-18.

Support for home ownership

6.5 Budget 2013 announced Help to Buy, a major new package of measures to increase the supply of low-deposit mortgages for credit-worthy households, increase the supply of new housing and contribute to economic growth.

6.6 The Help to Buy: equity loan scheme was launched on 1 April, providing equity loans worth up to 20 per cent of the value of a new build home, repayable once the home is sold. The scheme has supported over 4,000 families to reserve their own new build home in just the first two months of operation. The Spending Round confirms that of the total £3.7 billion investment, £1.3 billion will be provided in 2015-16 to support the scheme in England. By 2015-16 it is expected that up to 74,000 new build sales will have been supported through Help to Buy: equity loan.

6.7 The Help to Buy: mortgage guarantee will be available from January 2014. The Government will offer lenders the option to purchase a guarantee on mortgages on both new build and existing homes, where a borrower has a deposit of between 5 per cent and 20 per cent. This will encourage lenders to offer a greater number of mortgages to borrowers with small deposits. By making more high loan-to-value (LTV) mortgages available, this scheme will support potential home owners who can afford interest repayments on a high LTV mortgage, but are unable to save up for the large deposits still required in the wake of the financial crisis. Subject to its final design, the mortgage guarantee will make up to £12 billion of government guarantees available, which is sufficient to support £130 billion of high loan-to-value mortgages.

6.8 The Government has asked UK Asset Resolution (UKAR) to administer the Help to Buy: mortgage guarantee scheme and HM Treasury is working in consultation with industry and regulators to develop detailed scheme rules. The intention of the Help to Buy: mortgage guarantee scheme is clear; to help first time buyers and families moving to meet their needs. For that reason, as with the Help to Buy: equity loan, the Help to Buy: mortgage guarantee will only be available for the purchaser’s sole property. Lenders will need to collect a borrower declaration as part of the mortgage application.

Land supply, asset sales and planning reform

6.9 The Government is driving growth and efficiency through its commitment to release the value of public sector assets that would be better managed in the private sector. Substantial progress has already been made, with Central Government sales since May 2010 exceeding £6 billion.[2] As part of its ambition to release land to support 100,000 homes by 2015, the Government has already released land with capacity for 47,000 homes.

6.10 But the Government needs to do more to release public sector land that can be made surplus or redundant into more productive economic use in the private sector. Independent estimates suggest the public sector holds up to 40 per cent of developable sites, while industry surveys show that around half of developers continue to identify land supply as a major barrier to development.

6.11 The Spending Round therefore sets out the Government's plans to go even further, setting an ambitious target for central government to deliver at least £15 billion of asset sales between 2015 and 2020. This will comprise at least £5 billion of land and property to support growth and drive efficiency, and at least £10 billion of corporate and financial assets, which will contribute to the Government's aim to reduce public sector net debt, including proceeds from the pre-Browne Income Contingent Repayment student loan book.

6.12 To support delivery of this target and improve the release of public land to the market, the Government will implement a series of policy changes, including:

- a Right to Contest, which will give local communities and businesses the right to challenge the Government to release land where it is potentially surplus or redundant and can be put to better use. Landholders will be subject to ministerial scrutiny to prove where sites cannot be sold because they are vital for operational purposes;
- a new Strategic Land Review, which will build on this right and invite input from industry and Local Authorities to help identify where further public sector land can be made surplus or redundant and sold to support construction and local growth;
- radically overhauling land sales, by centralising disposals in the Homes and Communities Agency (HCA) to ensure land is released efficiently;
- accountability for delivery through a new centralised role and greater levers for the Shareholder Executive (ShEx) and Government Property Unit (GPU) to hold departments to account on corporate asset and property disposals and rationalisation; and
- improved incentives for central government departments to ensure efficient use of assets, including offering flexibility on when departments can spend asset sale proceeds.

6.13 The Government will also expect more from local authorities and Local Enterprise Partnerships on productive use of local assets, including asking them to set out their plans and ambitions as part of City Deals and Growth Deals. Local government asset sales are forecast to total £13.3 billion between 2015-16 and 2017-18.[3] To incentivise asset sales and support investment in transforming local services, the Government will also consult on allowing local

---

[2] Published sales of corporate and financial assets (2.6 GHz spectrum; the Tote; Northern Rock; High Speed 1 (30 year concession) total over 5.4bn; property and land sales have exceeded 1bn (Cabinet Office press release March 2013)

[3] Office for Budget Responsibility, March 2013: Fiscal Supplementary Tables (Table 2.25)

authorities some flexibility to use their receipts from asset sales to pay for the one-off costs of service reforms.

6.14 The Government will set out further detail on each of these policies, including how the target will be split between the GPU, HCA and ShEx, at Autumn Statement 2013.

6.15 The Government has also made significant reforms to the planning system in order to support housing supply now and in the future, including through the National Planning Policy Framework (NPPF) and the Growth and Infrastructure Act. The NPPF will increasingly provide businesses with the confidence to invest and build; and there are already positive signs that it is making a difference. According to recent data from the Home Builders Federation, planning permissions for new homes in the year up to March 2013 were at their highest level, over a comparable period, since the 12 months to March 2008. The number of approvals for new homes was over 20 per cent higher in the first year of the NPPF than in the previous twelve months.

Supporting capital investment in new housing

6.16 The provision of good quality homes for rent is also critical to supporting competitiveness, particularly in cities where a young, dynamic workforce benefit from the flexibility that this tenure offers. Through targeted funding and the use of guarantees to support the rented sector, the Government is creating a framework that will support more long-term investment, including from pension and insurance companies and other investors.

6.17 The Government's reforms have enabled the social housing sector to leverage unprecedented levels of private investment in order to support new housing supply. The Spending Round announces that the Government is providing a £3.3 billion package to support 165,000 new affordable homes over three years from 2015-16, which will contribute to 200,000 new affordable homes over the next four years. This includes:

- extending the Affordable Homes Programme, giving the private sector confidence to invest by providing certainty that from 2015-16 social rents will rise by CPI plus 1 per cent each year for 10 years and investing £957 million capital funding each year from 2015-16 to 2017-18;
- allowing the HCA to charge fees for its regulation services, enabling it to strengthen its capacity to regulate an increasingly diverse sector and drive efficiencies in the social housing sector on the basis of a stronger emphasis on regulating value for money; and
- launching a new Affordable Rent to Buy scheme, with £250 million in 2015-16 and £150 million in 2016-17 to support new affordable homes for rent and eventual sale.

6.18 The Government will also provide £160 million of funding in 2015-16 for Decent Homes, targeted on those areas with the largest number of non-decent homes and ending the backlog programme by ensuring no area has more than 10 per cent non-decent stock by March 2016.

6.19 This will sit alongside £300 million of funding in 2015-16 for private rented homes through the Build to Rent fund. The Government is also providing £102 million of loan and equity finance in 2015-16, to meet upfront infrastructure requirements that will enable the delivery of thousands of homes on large housing sites.

Local incentives to promote growth

6.20 Local authorities have a crucial role to play in supporting housing and wider economic growth, but the local government finance system has historically penalised rather than rewarded housing and other growth. The Government has put in place structural reforms to sharpen these incentives. From April 2013, local authorities in England are retaining half of the business rates that are raised locally. This builds on the New Homes Bonus, which provides funding for local authorities based on the homes that are built in their area. The Spending Round announces that £400 million from the New Homes Bonus will be pooled within Local Enterprise Partnership areas to support strategic housing and economic development priorities.

Simplification and de-regulation

6.21 Reducing regulatory burdens will increase the viability of building new homes. The Government has committed both to a 'one in two out' policy for new regulations across Government, as well as a specific commitment to ensure there is a net reduction in the regulatory burdens affecting housebuilding over the current Spending Review period up to 2015. The Government will publish progress reports against the house builder de-regulation commitment at Budget 2014 and Budget 2015.

6.22 Sustained and long term investment is a necessary component of the Government's ambition to close the gap between housing supply and demand. Developers and investors benefit from greater predictability on land supply, funding availability and the wider policy environment in making investment decisions. The Government is supporting this long-term outlook through commitments on affordable housing investment and social rent certainty, up-front investment to facilitate long term private investment on large housing sites, the use of guarantees to support investment in housing and through its supply side reforms.

7 Digital communications

Developments in communications technology have driven some of the biggest economic transformations in the last century. They enable fundamental change to the way the economy is connected, creating vast new possibilities and opportunities. The Government is committed to putting the UK at the forefront of this revolution through:

- investing up to £250 million, locally match-funded, to extend superfast broadband provision from current coverage plans so that 95 per cent of UK premises will have access to superfast broadband by 2017;
- exploring with industry how to expand coverage further, using more innovative fixed, wireless and mobile broadband solutions, to reach at least 99 per cent of premises in the UK by 2018;
- further investment in clearing high-value spectrum to support the growth in demand for next generation mobile services and a further auction of 4G spectrum; and
- introducing a new system of departmental charges for Government spectrum access to ensure the public sector is playing its part in the efficient use and management of valuable spectrum.

Growth in the UK digital economy

7.1 The UK internet economy is worth over £120 billion each year, equivalent to 7.7 per cent of GDP, with projected growth taking it to 10 per cent of GDP by 2015 – higher than in the construction, transport and utilities sectors.[1] More British people bought goods and services online in 2011 than in any other major economy. This is set to continue, with the total value of UK purchases alone over the internet expanding 11 per cent each year to a projected £221 billion by 2016, compared with projected growth rates of only 5.4 per cent in the US and 6.9 per cent in China.[2]

7.2 Consumption of media content on digital formats is also increasing with the rise of smartphones, tablets and other connected devices enabling people to stay connected wherever they are. 92 per cent of adults now own a mobile phone, with two-fifths of these smartphones, demonstrating how people value being able to access the internet when on the move. This trend looks set to increase, with monthly data use by smartphone users doubling in the 18 months to January 2012.[3]

7.3 The increase in internet usage through both fixed and mobile devices has led to an exponential rise in data traffic, forecast to grow year-on-year by 37 per cent, to reach a monthly

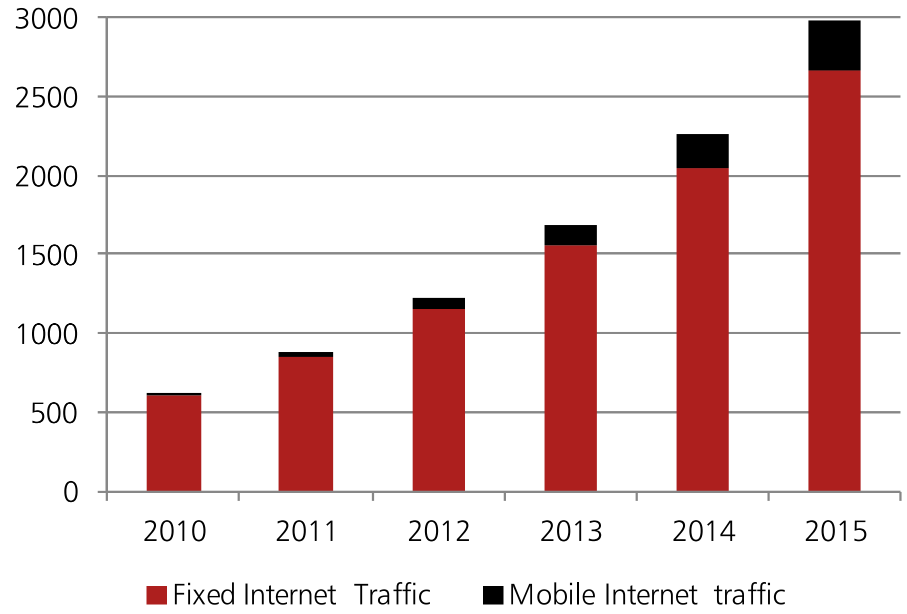
[1] *The Connected Kingdom: How the Internet Is Transforming the U.K. Economy*, Boston Consulting Group, October 2010

[2] *The $4.2 Trillion Opportunity: The Internet Economy in the G-20*, The Boston Consulting Group, March 2012

[3] *The Consumer Experience of 2012*, Ofcom, January 2013

volume of 3,000 petabytes in 2015, or the equivalent of 200 million albums downloaded each day.[4] 90 per cent of the data in use today has been created in the last two years.

Chart 7.A: UK internet data usage



7.4 The UK needs a robust, efficient and future-proofed digital communications infrastructure to meet the growing consumer appetite for using new digital devices to enable higher capacity data connections and to capitalise on the economic opportunities this creates. Access to fast, reliable and competitively priced fixed and mobile broadband is therefore essential for UK homes to maximise the economic and social benefits to consumers and businesses of being connected to the global internet economy.

The Government's strategic approach to the digital economy

7.5 The Government's strategy is to work in partnership with industry to deliver the crucial digital infrastructure needed to ensure that the UK maintains its position as the best internet economy in the world, underpinning jobs and economic growth. Strategic investment to deliver growth is key, demonstrated by the Government's commitment to a £1.2 billion programme of public investment in superfast broadband, working together with industry, Local Authorities and Devolved Administrations to achieve a step-change in broadband, enabling the UK to have the best superfast broadband network in the Europe by 2015.

7.6 The Government is also already supporting delivery of mobile services in UK locations that would not have otherwise been reached by the private sector through its £150 million investment in the Mobile Infrastructure Project, which will ensure that households within the final one per cent of the UK can receive at least 2G mobile services.

7.7 The Government is also easing the roll-out of communications infrastructure so companies will face less cost, bureaucracy and delay in installing essential components of their networks. For example, changes to broadband planning requirements in the Growth and Infrastructure Bill earlier this year will accelerate the delivery of both commercial and public broadband

[4] *The Internet Economy in the United kingdom*, AT Kearney, 2012

programmes making it easier for broadband companies to put in the infrastructure (like cables and cabinets). Measures to facilitate the roll-out of mobile infrastructure are in progress and will speed up delivery of 4G services now and in the future.

7.8 Access to broadband is as important as provision. To maximise the economic benefit of digital connectivity, the Government wants to support take-up of broadband by businesses, consumers and citizens. Take-up of superfast connections overall increased by 650,000 in the last quarter of 2012, a rate of 50,000 per week. However, according to ONS data, 7.1 million people in the UK have never been online.

7.9 SMEs utilising the internet have reported more than double the total export revenue as others.[5] To capitalise on the international reach the internet enables, the Government has already committed to investing up to £150 million in high-speed broadband provision to establish a number of super-connected cities across all of the UK by 2015. Businesses in the super-connected cities will benefit from increased access to ultrafast broadband through vouchers to enable high-speed connectivity and businesses and consumers will benefit from coherent, continuous public wireless networks. The Information Economy Strategy, published in June 2013, also contains measures to enable businesses to make smart use of digital information and data, including a programme launching later this year to help SMEs with online trading.

7.10 The Government is also supporting a range of measures to address wider digital exclusion, co-ordinating with Go ON UK, Chaired by UK's Digital Champion, Martha Lane Fox, and the UK's Digital Skills Alliance, a cross-sector partnership aimed at reaching those without the basic skills and knowledge to operate online. In addition, the Government supports enhancing internet skills through the UK Online Centre network, comprised of 3,800 community partners. The Government is currently establishing a new team in the Government Digital Service to co-ordinate with Go ON UK to develop an evidence base to support further action to address digital inclusion.

Fixed Broadband

7.11 The £1.2 billion of Government investment in fixed superfast broadband, together with the commercial roll-out of superfast broadband networks by some providers, is already proving transformational, creating local jobs and national growth. It will provide almost 25 million premises with access to superfast broadband and increase average speeds by more than three times in the life of this Parliament. The results of this investment are evident today: the UK now has better coverage, usage, and choice than Germany, Italy, France and Spain. Since May 2010, average broadband speeds have more than doubled, whilst superfast connections of around 30 Mbps have risen from negligible levels to 13 per cent of all internet connections with 100,000 homes and businesses now getting access to superfast broadband each week. On current plans nearly 90 per cent of homes will have access to fixed, superfast broadband by 2015.

7.12 The Government wants to ensure the whole of the UK has access, not just to broadband but to superfast broadband. The current programme will support coverage to around 90 per cent of UK households, but the Government wants to go further. That is why the Spending Round announces a further £250 million investment, locally match-funded, to extend superfast broadband provision from current coverage plans so that 95 per cent of UK premises will have access to superfast broadband by 2017. The Government will work with industry to develop the more innovative fixed, wireless and mobile broadband solutions required to move to at least 99 per cent superfast broadband coverage by 2018.

[5] *Internet matters: The Net's sweeping impact on jobs, growth and prosperity*, McKinsey Global Institute, May 2011

Mobile broadband

7.13 Establishing a sophisticated mobile communications infrastructure is as important to the UK as fixed-line broadband provision and in some parts of the country it can provide connectivity solutions where fixed broadband cannot reach. 99 per cent of premises are already covered by 2G and 3G services.[6]

7.14 Government investment in clearing radio spectrum for mobile use to enable this year's 4G spectrum auction is anticipated to bring significant benefits to the economy. In addition to £2.3 billion in auction revenue collected, the wider benefits of 4G services are expected to be worth £20 billion to the UK economy in the next ten years.[7] From this year consumers will therefore be able to benefit from competitively priced, 4G mobile services, which will enable quicker mobile access to the internet, with download speeds potentially increasing by around five to seven times compared to existing 3G networks. This will be approaching, and in some places already surpasses, superfast fixed broadband speeds and, under current commercial plans, 4G coverage will reach 98 per cent of UK households by 2015.

7.15 The Government will continue to look ahead to ensure the UK's digital infrastructure is prepared for the future of the digital economy, through new investment in spectrum clearance, ensuring commercially owned spectrum is efficiently used by moving some existing spectrum users to create space for new ones. This will enable the next 4G auction and ensure there is sufficient spectrum available to meet the growing demand for data on the move.

7.16 The 4G auction in 2013 demonstrated the value of spectrum as a resource. It is however, finite. A large amount of valuable spectrum is still held by the public sector. Government has committed to releasing 500 MHz by 2020 in order to maximise economic benefit, freeing up bandwidth to be used more productively outside of government. In order to meet that commitment and ensure more efficient use and management of public sector spectrum holdings, the Government will introduce further financial incentives including a new system of departmental charges for spectrum access in 2015-16.

Long-term digital communications strategy

7.17 Having co-ordinated, coherent and long-term plans in place to support growth in the UK's digital environment is essential if Government is to reap the maximum benefit from current Government commitments. To this end, the Government will shortly be publishing a paper setting out the Government's approach to digital connectivity, content and consumers.

[6] *The Consumer Experience of 2012*, Ofcom, January 2013.

[7] Estimate by Ofcom.

8 Long-term approaches in other sectors

Providing long-term funding commitments and certainty for the private sector can have benefits for other sectors and types of infrastructure – driving savings by improving planning and providing certainty and allowing the supply chain to deliver efficiencies. Alongside this, giving greater flexibilities and operational freedoms to institutions can help them better leverage commercial income, increasing value for money to the tax payer. The Spending Round announces that the Government will:

- invest a further £21 billion in schools over the next Parliament to **build over 275,000 new primary school places and 245,000 new secondary school places** to keep up with demographic demands; **rebuild schools in poor condition**; and drive forward education reform;
- **invest £4.7 billion in health and social care capital in 2015-16, including planned investment of £1.4 billion in hospital upgrades and redevelopments**;
- **pilot new operational freedoms to help the museums sector continue to thrive and to become more financially independent. National museums will have greater autonomy to take independent decisions on issues such as pay and procurement, and to access finance to help plan and deliver strategic investments**;
- work with English Heritage to **consult on establishing a charity to care for the historic properties in the National Heritage Collection on a self-financing basis, supported by Government investment of £80 million**;
- **provide long-term security for home owners and businesses with a specific, long term funding settlement for flood defences each year until 2020**. This will be the first time such a long-term settlement has been provided, improving protection for at least 300,000 homes by the end of the next Parliament;
- **invest now for savings in the medium and long-term, by building a new prison in North Wales.** This is a key part of the Government's strategy to replace older, inefficient and expensive prison places with new more cost-effective ones; and
- **target investment in digital services, to bring old inefficient, paper based systems into the 21st Century, for instance investing:** more than £200 million to expand Her Majesty's Revenue and Customs' digital services between 2013-14 and 2015-16 so that all 4.8 million Small and Medium-sized Enterprises (SMEs) and 2 million individuals will have their own online tax accounts by the end of 2015-16; £160 million in the Criminal Justice System (CJS) between 2013-14 and 2015-16 to create a fully integrated system based around a common digital platform from police station to courtroom; and £260 million in NHS IT in 2013-14 to 2014-15 to replace paper based systems for patient notes and prescriptions.

8.1 The Government is committed to taking a long-term approach across as wide a range of sectors as possible. This is already a key element of the framework of economic regulation in markets such as aviation and water.

8.2 In this Spending Round the Government is providing further, long-term certainty for schools, health and social care. It is devolving greater freedoms to museums and galleries, investing in the long-term sustainability of English Heritage. For the first time, the Government is providing a long-term funding settlement for flood defences to enable strategic investment that will protect 300,000 homes by the end of the next Parliament. The Government is also investing to make savings in the CJS, investing in digital technology to reduce reliance on costly, paper based systems and investing in a new prison in North Wales as part of a strategy to close costly and inefficient places in the ageing UK prison estate.

8.3 This chapter sets out the key announcements from the Spending Round for these key sectors.

Aviation

8.4 The UK is one of the best connected countries in the world, with 220 million passengers using UK airports to fly to over 360 destinations. Goods worth £116 billion are shipped by air between the UK and non-EU countries each year, representing 35 per cent of the UK's extra-EU trade by value. The UK aviation sector employs 220,000 people directly and generates around £18 billion of economic output.

8.5 The Government's aim is to ensure that the UK remains an international aviation hub and one of the best connected countries in the world, and that UK airports and aviation industry are well-placed to compete internationally and provide UK businesses with the services they need.

8.6 Airport capacity is fundamental but highly contentious. The Government has set up the Airports Commission led by Sir Howard Davies to provide an independent, evidence-based assessment of how to maintain the UK's position as Europe's most important aviation hub. This Commission will identify and evaluate how any need for additional capacity should be met in the short, medium and long term. In advance of the final report in 2015, an interim report on immediate actions to improve the use of existing runway capacity is expected to be published in late 2013. The Government will respond to the interim report in 2014.

8.7 In 2012, the Government announced measures to: improve airport reliability; further liberalise the aviation market; reduce delays at Heathrow; and improve efficiency at the border. This compliments a substantial investment programme to improve the road and rail links to airports. For example, rail journeys to Heathrow from the Midlands, the North and Wales will be as much as 50 per cent quicker, involve fewer changes and avoid central London; Birmingham airport will benefit from High Speed rail links; and Manchester airport will benefit from the Northern Hub, rail electrification, managed motorway schemes and connecting the M56 and A6 through the Manchester Airport Link Road. The aviation industry is investing too, with Heathrow's £2.5 billion construction of the new Terminal 2, opening next year.

8.8 Maintaining regional air links to London helps to support regional economies. Devolved and regional bodies may apply for a Public Service Obligation (PSO) which will support the continued operation of a route between two regions where it is considered vital for economic development. The Government will provide £20 million of funding to improve air links to London where there is a risk that regional connectivity may be lost. Where the case for a PSO has been made the Government will agree, subject to periodic review, the appropriate level of support it will provide alongside regional support.

Water

8.9 Since privatisation in 1989, the stable, independent regulatory framework in the water sector has enabled over £108 billion of investment.[1] The UK water sector is attractive for investors while price regulation ensures that consumers get a fair deal.

8.10 Ofwat have started their work to set price limits for the next period, running to 2020. This will provide the basis for further investment in improving water infrastructure. The price review will conclude in 2014.

8.11 The Government is introducing the Water Bill to Parliament, which will introduce greater competition in the water supply industry to drive innovation, reduce red tape for businesses and create employment whilst ensuring the industry continues to attract global investment; and to provide greater choice and flexibility for customers whilst helping to keep bills affordable. The Government sees the Water Bill as the best vehicle for seeking measures to ensure that affordable flood insurance remains widely available.

8.12 The proposed Thames Tideway Tunnel will provide a multi-billion pound investment in improving the water infrastructure in London, protecting the River Thames and enabling population growth. The Government is working to develop options for a support package which would enable the project to be delivered by the private sector.

Education

8.13 The Government's first priority for school investment is to meet the growing need for school places. At the same time, investment is vital for renewing schools in poor condition and continuing to increase choice and diversity in the schools system. The Government's approach is based on giving long-term certainty to enable local authorities and schools to plan strategically; targeting funding more effectively to need; and driving down costs, for example through widespread use of standardised designs.

8.14 The current Spending Review period includes over £18 billion of investment in schools by 2014-15. This includes funding for over 400,000 school places to meet demographic demand – supported by improved data to ensure that funding is targeted to the areas that need it most. The Government is also investing in maintenance and is renewing schools in the worst condition through the Priority School Building Programme – using centralised procurement and baseline designs to reduce costs by over 40 per cent compared to Building Schools for the Future.

8.15 At the same time, capital investment is helping to support a more autonomous and diverse school system, with greater choice for parents and a compelling vocational offer. So far, the Government has opened 81new Free Schools and over 200 more are in the pipeline. More than 20 University Technical Colleges and Studio Schools are also already raising vocational standards, with another 68 due to open from September 2013 onwards.

8.16 The Spending Round sets out plans to build on this progress, confirming a long term commitment to invest more than £21 billion over the next Parliament. This includes enough funding to:

- build over 275,000 new primary school places and 245,000 new secondary school places to keep up with demographic demands;

[1] *Water for Life*, Department for Environment, Food and Rural Affairs, 2011

- open up to 180 new Free Schools, 20 University Technical Colleges and 20 Studio Schools a year, to continue to improve choice and standards in the schools system;
- address all essential schools maintenance needs, using improved data to target funding; and
- rebuild 150 schools in very poor condition by 2017 – two years earlier than planned – as part of the Priority School Building Programme.

Health and Social Care

8.17 The health and social care system is facing pressures from an ageing population, and from increasing numbers of people with multiple, complex conditions including high blood pressure, dementia and arthritis. Investment in our health and care infrastructure is therefore crucial in order to modernise services and ensure that they are fit for the challenges of the 21st century.

8.18 The Government has invested over £3.7 billion a year in 2011-12 and 2012-13 on healthcare infrastructure and equipment, including over £500 million a year on new hospital redevelopments. The Government has already committed to supporting the redevelopment of North Middlesex, Lister and West Cumberland hospitals and this investment has delivered dozens of new hospital wards and essential buildings maintenance. The Government is also investing £260 million to help hospitals embrace new technology, and to replace outdated paper based systems for patient notes and prescriptions. A 5-year supported housing fund, worth up to £300 million, is helping to create thousands of extra houses and flats specially designed for disabled and older people.

8.19 The Spending Round sets out that the Government will continue to increase health spending in real terms in 2015-16 as it has done for every year of this Parliament, which gives the NHS the certainty it needs to continue providing high quality health services and invest in world class health-sector infrastructure.

8.20 As part of this settlement, the Government will allocate £4.7 billion for capital investment in the health and social care system in 2015-16. This includes:

- plans for £1.4 billion investment in hospital upgrades and redevelopments, supporting projects such as the redevelopment of Royal Liverpool hospital, which will be the largest hospital in the country to provide all single en-suite bedrooms for patients;
- funding for two cutting edge Proton Beam Therapy centres, in London and Manchester, which will benefit around 1,500 cancer patients each year;
- £220 million funding for home adaptations through the Disabled Facilities Grant and an additional £115 million for supported housing, which will ensure that older and disabled people can stay independent and live in their own homes for longer and will reduce pressures on social care and NHS services; and
- a £40 million investment in tailored hostel accommodation for rough sleepers, which will reduce emergency admissions to Accident and Emergency and improve mental health outcomes.

Culture

8.21 The UK's national museums and heritage institutions hold uniquely important collections and make a key economic and social contribution. Museums sponsored by DCMS attracted around 19 million overseas visits in 2011-12, with 48 per cent of all tourists attending a museum during their visit to England.

8.22 The Spending Round maintains the Government's commitment to free entry and limits reductions to national museum funding to 5 per cent. The Government has also announced a four-year pilot of new operational freedoms to help the sector continue to thrive and to increase self-generated income. This will enable national museums to take independent decisions on issues such as pay and procurement, and to access finance to unlock new projects, commercial revenues and philanthropic donations. In addition the Government will work with English Heritage to consult on establishing a charity to care for the historic properties in the National Heritage Collection on a self-financing basis, supported by Government investment of £80 million.

Flood defences

8.23 Serious flooding can happen at any time and the latest climate projections indicate that sea levels will rise and there will be increasingly severe and frequent rainstorms. This means the risk of floods will increase. The importance of having defences in place has been well demonstrated over the last few years with over 140,000 households protected from flooding during the heavy rain between April and November in 2012 alone.

8.24 The Government has already taken steps to support the protection this vital infrastructure brings with flood defence investment protected relative to other spending at the 2010 Spending Review. This investment, alongside increasing efficiency within the Environment Agency and leveraging outside funding, means that 165,000 households will have benefitted from improved or new defences over the Spending Review period.

8.25 The risk from flooding continues however. To demonstrate the Government's commitment to managing this, it has set for the first time a specific long term funding settlement for flood defences, rising to £370 million in 2015-16 and then protected in real terms to 2020-21. This provides a total of £2.3 billion and represents a real annual increase of 18 per cent compared with the Spending Review 2010 period. This will:

- fund a pipeline of projects across England;
- deliver improved protection to at least 300,000 homes;
- support an ambition to increase the efficiency of this investment by at least 10 per cent across the investment period compared to a 2014-15 baseline;
- make it easier for communities and businesses to contribute towards schemes – allowing public money to go further and help more schemes be built; and
- support the insurance industry in maintaining available and affordable flood cover for households.

8.26 Moving to a long term funding settlement has the potential to unlock further efficiencies from the delivery of flood defence investment. These efficiencies will be achieved by allowing the Environment Agency (EA), its partners and the supply chain to plan more effectively and adopt new delivery methods based on:

- removal of annual uncertainty, and stop/start investment;
- multi-year programmes of projects;
- innovative contractual arrangements which seek to package work to maximise value for money; and

- greater collaboration between the EA, its partners and the supply chain in the planning and execution of the investment pipeline.

8.27 This approach will not only deliver cashable savings. It will also provide long term certainty and security for communities facing flood risk across England allowing them to plan and grow into the future – despite threats from the uncertain weather.

Prisons

8.28 The Government is also determined to deliver the best possible value for money from the prison estate, whilst ensuring there are always enough places to accommodate those the courts sentence to prison in safe and secure accommodation.

8.29 In the current Spending Review period the Government has sought to reduce the cost of the prison estate by replacing old, uneconomic prison places with new, more cost-effective ones. Some of the accommodation that has been shut pre-dated the Victorian era with very high staffing costs due to building design and high costs of essential maintenance. In addition the Government is running a prisons competition programme, to increase the involvement of the private sector in a further bid to reduce costs and seek more effective prison regimes.

8.30 In this Spending Round the Government has committed to delivering £180 million of further cashable savings through reducing the cost of the prison estate. It has initiated a Public Sector Benchmarking process to drive down unit costs, drawing on lessons from the current prisons competitions phase regarding the potential running costs of existing buildings.

8.31 The Government is therefore also investing £250 million (£100 million in 2015-16) to build a new prison in North Wales. This will significantly accelerate the Government's 'new-for-old' strategy, delivering savings of £20 million a year from 2017-18.

Investing to save

8.32 The Government recognises the need to make targeted investment decisions now, to facilitate service transformation, deliver savings and bring public services into the 21st century. Government departments are therefore investing in up to date IT systems to improve efficiency, reduce reliance on paper-based systems and save time and money in the long term. For instance:

- the Government will invest more than £200 million to expand HMRC's digital services over the next three years. Less reliance on paper and phone calls will transform the customer service experience, making it easier and cheaper for customers, as well as reducing costs for HMRC. By the end of 2015-16 it will enable all 4.8 million SMEs or their agents and 2 million individuals to use their new online account to interact with HMRC, take control of their own tax affairs, and notify the Department of various changes. For example, individuals will be able to receive paperless correspondence and update personal details. This transformation will also make HMRC more efficient with £51 million of efficiency savings in 2015-16 delivered through less manual processing and reduced postage costs. It will also allow HMRC to help businesses and individuals pay the right amount of tax first time so the Department can focus on tackling the most serious non-compliance, including tackling those seeking to avoid and evade their taxes;
- the CJS is characterised by delays, errors and inefficient working. The Government will therefore invest £160 million between 2013-14 and 2015-16 in digital technology to improve collaboration and create a fully integrated system based around a common digital platform from police station to courtroom. This includes

£70 million investment in 2015-16 to create courtrooms where all parties can work from wi-fi enabled tablets and a single information management system allowing case information to be shared across the CJS. This will end the outdated and costly reliance on paper and reduce duplication, delays, and mistakes, improving the experience of justice for victims and witnesses. It also includes £25 million investment in 2015-16 to implement more integrated police IT. This will help transform police working practices so that they are digital, mobile and less paper-based, freeing them up to spend more time tackling crime; and

- case studies have shown that digital systems in the NHS can save lives and money for example, using electronic prescribing can reduce the number of adverse drug reactions by up to 60 per cent.[2] Good progress has been made on introducing IT systems in to GPs' surgeries and some hospitals in recent years. However, more needs to be done to improve patient safety and drive efficiency by making the NHS fully paperless. Better use of information and technology in the NHS has the potential to enable billions to be re-utilised to provide better, safer care. The Government is therefore investing £260 million between 2013-14 and 2014-15 to bring in digital systems for patient records and prescriptions to more hospitals across the country and will continue with their support for local procurement of hospital IT systems in 2015-16.

[2] *A review of the potential benefits from the better use of information and technology in Health and Social Care*, PricewaterhouseCoopers LLP, 2013

9 Local growth and the Devolved Administrations

There is a powerful case for giving local business and political leaders the levers they need to create jobs and drive growth. The Government agrees with Lord Heseltine that these local leaders are best placed to set the strategic direction for an area, and has accepted his recommendations to devolve economic power to Local Enterprise Partnerships (LEPs) through the creation of a Single Local Growth Fund and Growth Deals. The Spending Round confirmed this Government's commitment to local leadership on economic development, giving greater power and influence to business-led LEPs, by:

- bringing the resources under the strategic influence of LEPs to at least £20 billion in the years to 2021;
- creating a Single Local Growth Fund (SLGF) with over £2 billion of budgets from skills, housing and transport for 2015-16;
- making a further commitment of £5 billion of transport funding in the SLGF from 2016-17 to 2020-21 to enable long-term planning of priority infrastructure while also committing to maintain the SLGF at a total of at least £2 billion each year in the next Parliament; and
- giving LEPs responsibility for how €6.2 billion (£5.3 billion) of EU Structural and Investment Funds is spent.

Consistent with this approach to local growth in England, the Government is working to ensure that the right funding and decision-making powers are provided to Scotland, Wales and Northern Ireland to drive growth across the UK.

Enabling local and private sector growth

9.1 Over recent decades, London and the South East have been relied on as the primary source of economic growth in the UK. Despite significant investment in the regions, London, with around 13 per cent of the population, produces around 21.5 per cent of UK Gross Value Added (GVA), and has the highest GVA per head of all regions. But countries can be more successful when they are driven not just by their capitals, but by broader based growth across sectors and regions.

9.2 Every locality must be able to fulfil its potential by taking responsibility for decisions and resources that affect their local economies. The Government has already taken action, including:

- promoting the establishment of Local Enterprise Partnerships (LEPs) – 39 strategic partnerships between local business leaders, local authority leaders and other partners;
- allowing the local retention of business rates – incentivising local areas to prioritise growth and keep 50 per cent of the proceeds;

- creating the Growing Places Fund and the Regional Growth Fund – providing support to businesses, LEPs and local authorities for local projects and programmes;
- introducing City Deals – negotiating bespoke deals with cities and their LEPs to give them the powers and tools they need to drive local economic growth;
- establishing Enterprise Zones – areas around the country that support both new and expanding businesses by offering incentives, creating local jobs and growth; and
- removing £7 billion of ring-fences from local government at Spending Review 2010.

9.3 In his report, Lord Heseltine made a powerful case for building on these reforms and going further in decentralising economic powers in England. Budget 2013 confirmed the Government's support for Lord Heseltine's recommendations.[1] This document sets out the further development of existing reforms, along with new steps to significantly extend their scope and ambition, through giving LEPs greater control over the key local economic levers of skills, transport and housing.

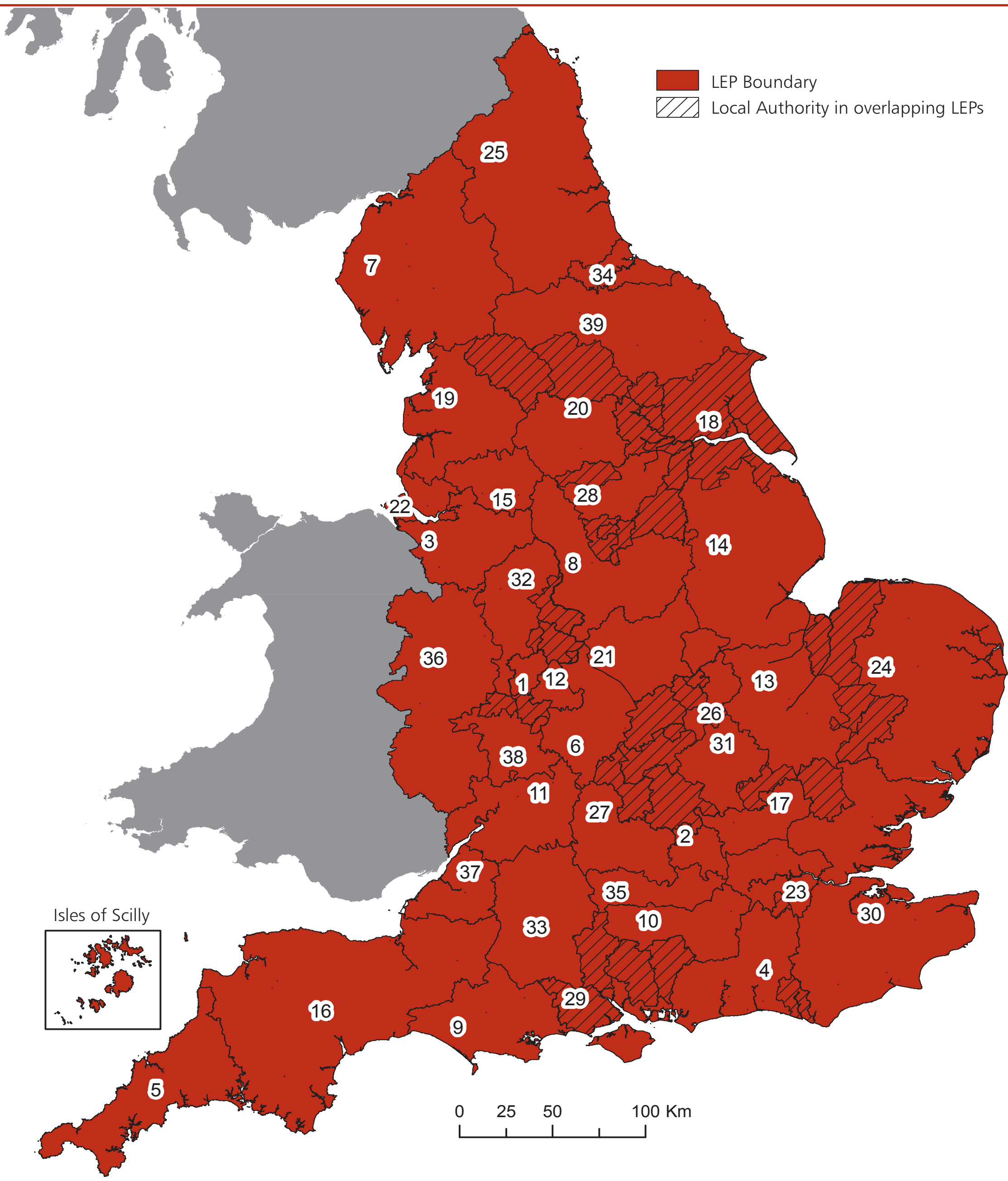
City Deals

9.4 The Government has already agreed deals with the core cities[2] that devolve over £500 million of funding over a ten year period and provide greater flexibility and autonomy. As part of this process, the Spending Round confirms up to £30 million in 2015-16 to support the Greater Manchester Combined Authority's commitment to longer-term infrastructure investment through the innovative Earn Back deal. The second wave of City Deals, giving more cities the power to strengthen their local economies, is expected to conclude by March 2014.

[1] *Government's response to the Heseltine Review*, Department for Business, Innovation and Skills and HM Treasury, March 2013

[2] The core cities are: Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham, Sheffield.

Figure 9.A: Local Enterprise Partnerships in England



1 Black Country
2 Buckinghamshire
3 Cheshire and Warrington
4 Coast to Capital
5 Cornwall and the Isles of Scilly
6 Coventry and Warwickshire
7 Cumbria
8 Derby, Derbyshire, Nottingham and Nottinghamshire
9 Dorset
10 Enterprise M3
11 Gloucestershire
12 Greater Birmingham and Solihull
13 Greater Cambridge & Greater Peterborough
14 Lincolnshire
15 Greater Manchester
16 Heart of the South West
17 Hertfordshire
18 Humber
19 Lancashire
20 Leeds City Region
21 Leicester and Leicestershire
22 Liverpool City Region
23 Pan London
24 New Anglia
25 North Eastern Local Enterprise Partnership
26 Northamptonshire
27 Oxfordshire
28 Sheffield City Region
29 Solent
30 South East
31 South East Midlands
32 Stoke and Staffordshire
33 Swindon and Wiltshire
34 Tees Valley
35 Thames Valley Berkshire
36 The Marches Enterprise Partnership
37 West of England
38 Worcestershire
39 York, North Yorkshire and East Riding

Source: Produced by Neighbourhoods Analysis Division, DCLG

Data Sources: OS Boundary-Line

Enterprise Zones

9.5 Enterprise Zones have already created over 3,000 new jobs and secured almost £229 million of extra private sector investment.[3] Responding to high demand, the Government will increase the Local Infrastructure Fund (LIF) by a further £50 million in 2014-15 to ensure that Enterprise Zones have the infrastructure they need to attract businesses. This is in addition to the £59 million awarded to successful Enterprise Zones in June 2013 to allow them to fund local infrastructure projects.

9.6 The Government will also make available £100 million in 2014-15 to Zones that can identify sites with high growth potential which are experiencing significant market challenges.

Regional Growth Fund

9.7 The Government has so far allocated £2.4 billion through the Regional Growth Fund to 300 projects and programmes, which have pledged to deliver 500,000 jobs and £13 billion of private sector investment. Building on the success of these previous rounds, the Spending Round announces £300 million funding a year for a refocused Regional Growth Fund (RGF) in both 2015-16 and 2016-17 to support projects and programmes to create economic growth and sustain private sector employment.

Growth Deals and the Single Local Growth Fund

9.8 Recognising their central role in promoting growth, the Spending Round increases the resources under the strategic direction of LEPs to more than £15 billion in the years to 2021 as set out in Table 9.B.

9.9 In response to Lord Heseltine's review the Government is creating the SLGF to support investment in economic priorities and stimulate growth across local areas, with funding allocated to LEPs on the basis of a "Growth Deals" negotiation with central Government. The Spending Round announces that over £2 billion of funding from across the transport, skills and housing budgets will be included in the SLGF in 2015-16 as set out in Table 9.A.

Table 9.A: Funding announced at Spending Round for the Single Local Growth Fund

	£ million
	2015-16
Local Authority Transport Majors	819
Local Sustainable Transport Fund	100
Integrated Transport Block	200
Further Education capital	330
ESF skills match funding	170
New Homes Bonus	400
Total	2,019
Of which, capital	1,449

[3] Calculations by the Department for Communities and Local Government

9.10 The SLGF will provide LEPs with the flexibility to tackle the barriers to growth in their areas and provide influence over the key levers of transport, skills and housing. An area's allocation from the SLGF will be available to be spent on the priorities LEPs and their partners have determined in their strategic economic plans.

9.11 Transport is central to local economic development. The Government has already announced its intention to devolve funding for local major transport schemes in a way that aligns with LEPs, and will ensure a smooth transition to including this funding in the SLGF. In addition to over £800 million of local major transport funding transferred to the SLGF in 2015-16, a further £300 million from other transport funding streams will be included, providing £1.1 billion of funding to support investments in local transport projects. In addition, there will be a further commitment of over £5 billion of transport funding from 2016-17 to 2020-21, to enable long term planning of priority transport investments in local areas. Of the local authority majors funding being transferred into the SLGF in 2015-16, £314 million is already committed to specific transport projects. The tail will reduce over time. This long-term transport funding will be available for LEPs to bid for as part of their first SLGF allocation.

9.12 The Government will also put £500 million of skills funding under local control, to allow local employers to drive the provision that they need to maximise growth in their areas. This will include resource in the form of match funding necessary to support skills projects funded through European Social Funding and Further Education capital funding.

9.13 The Government will continue to operate the New Homes Bonus on a payment-by-results basis in order to incentivise house building. The Government will consult on the mechanism for requiring that a proportion of this funding is pooled by LAs as part of the SLGF. LEPs and the member local authorities (Las) will then agree how to spend this funding in line with their strategic economic plans as agreed through the Growth Deal process. Inclusion of a proportion of the New Homes Bonus in the SLGF in 2015-16 will ensure LEPs and LAs work together on economic development priorities, including housing, across the LEP area.

9.14 This is the starting point for the SLGF and it will continue to be at least £2 billion every year in the next Parliament. LEPs need to demonstrate the impact that they can achieve with greater funding and flexibility and over time, the Government will seek to expand the scope of funding included.

9.15 The Government is also announcing alongside the Spending Round how €6.2 billion (£5.3 billion) of EU Structural and Investment Funds for 2014-20 will be allocated to LEPs across England. This funding will be brought together in a single "Growth Programme" with the Government simplifying how these funds work together, ensuring that LEPs can easily access this funding and that it is aligned with the wider Growth Deal process. This is the first time that Local Areas have been given responsibility for how this money is spent in local areas and, alongside the SLGF, will allow LEPs to make a real impact.

Table 9.B: Total resources under the strategic influence of Local Enterprise Partnerships and City Deals, 2012-13 to 2020-21

Resources already announced	Amount, £ million	Description
Growing Places Fund	730	The Growing Places Fund was created in 2011 to provide a revolving fund to allow LEPs to prioritise the infrastructure they need, empowering them to deliver their economic priorities.
Regional Growth Fund	380	The Regional Growth Fund (RGF) supports projects and programmes using private sector investment to create growth and jobs. To date, £380 million has been allocated to programmes led by LEPs and City regions. Round 4 allocations will be announced before the summer.
City Deals	489	City Deals introduced bespoke deals with cities and their LEPs to give them the powers and tools they need to drive local economic growth.
Public Works Loan Board	1,500	From 1 November 2013 LEPs will have access to cheaper borrowing through the PWLB for local priority infrastructure projects up to a total of £1.5 billion borrowing (excluding London).
TOTAL	3,099	
Additional resources announced in the Spending Round	**Amount, £ million**	**Description**
Single Local Growth Fund	12,114	The Single Local Growth Fund (SLGF) for the first time brings together central government's growth-related budgets and gives LEPs responsibility for spending it, on the basis of strategic plans. The SLGF will amount to over £2 billion in 2015-16, and includes a further commitment for £5 billion of transport funding over 2016-17 to 2020-21 to enable long term planning in priority infrastructure. The Government is also committing to maintain the SLGF at a total of at least £2 billion each year in the next Parliament.
EU Structural and Investment Funds	5,300	The Government is aligning EU structural and investment funds with the Single Local Growth Fund and allocations to LEPs across England.
TOTAL ADDITIONAL RESOURCES	17,414	
AGGREGATE TOTAL	20,513	
Source: HMG data		

Strategic economic plans

9.16 The Government reiterates that business-led LEPs are the best vehicle for driving economic growth in local areas. LEPs will be asked to develop multi-year strategic plans, bringing together funding proposals from the SLGF with plans for EU Structural and Investment Funds, and details of leveraged funding from local authorities and the wider public and private sector. These plans will cover 2015-16 to 2020-21 and ensure that everyone with an interest in a local area is driving in the same direction. The Government will publish guidance on the strategic plans and the Growth Deals process by the summer.

9.17 On the basis of these strategic plans central Government and each LEP will negotiate a "Growth Deal" to give local areas greater resources, powers and influence. This will include an allocation from the SLGF, made at a single point through a competitive process to strengthen incentives on LEPs and their partners to generate growth. That is, the LEPs with the strongest strategic plans that demonstrate their ability to deliver growth will gain the greatest share of the SLGF. As part of this deals approach, local areas will be expected to have strong and effective governance in place and support pro-growth reforms, including a coordinated approach to spatial planning (through the duty to cooperate) and the use of their own resources in line with strategic plans. Areas will also be able to argue for additional freedoms and flexibilities as part of this process.

9.18 These reforms, including the development of strategic economic plans through a process that brings together central government, LAs and the private sector, will drive greater coherence in local areas and a shared understanding of the economic development of an area. This will ensure that not only are better decisions being taken, because local areas know best what they need, but also that previously separate processes are brought together. The involvement of the private sector in the creation of the strategic plans will ensure that public investments are targeted on what is needed, in turn leveraging in private sector investment; and the long-term nature of these plans will give the private sector the greater certainty that it needs to invest.

Devolved administrations

9.19 Many of the sectors addressed in this document are devolved, and therefore the responsibility of Scotland, Wales and Northern Ireland. The UK government is committed to supporting the devolved administrations to drive growth in these areas and the Spending Round confirmed real terms growth for their capital budgets in 2015-16. This will enable the devolved administrations to invest according to their own priorities in devolved areas.

9.20 Alongside this, the Government is working to ensure that the right decision-making powers are devolved to Scotland, Wales and Northern Ireland:

- through the ongoing implementation of the Scotland Act 2012, the Government has confirmed new capital borrowing powers of £296 million will be made available to the Scottish Government in 2015-16 to support infrastructure investment. As a result of the Spending Round 2013 settlement and these new capital borrowing powers, the capital spending power of the Scottish Government will increase by almost 13 per cent in real terms in 2015-16. Devolved tax powers will also enable Scottish versions of Stamp Duty Land Tax and Landfill Tax to be introduced in 2015-16, with a new Scottish rate of income tax being implemented in 2016-17;
- the Government is committed to rebalancing the Northern Ireland economy, and has agreed a temporary increase to the Northern Ireland Executive's capital borrowing powers under the Reinvestment and Reform Initiative (RRI). As set out in

the Northern Ireland economic pact published on 14 June, an additional £100 million of capital borrowing powers will be made available to the Northern Ireland Executive over two years in 2014-15 and 2015-16 to fund specific projects in housing and education to help build a shared future in Northern Ireland;[4] and

- after careful consideration of the Silk Commission's first report on fiscal devolution to Wales, the Government recognises that the Welsh Assembly's financial accountability and autonomy would be enhanced if it was funded through a combination of block grant and self-financing. The Government will now finalise its detailed response and then explore with the Welsh Government how this can help to support a funding solution for the M4 improvement scheme in south Wales.

[4] *Building a Prosperous and United Community*, UK Government and Northern Ireland Executive, June 2013

10 Infrastructure delivery and finance

In order to truly transform the UK's infrastructure, the Government is matching its long term funding commitments with an equally strong focus on improving the delivery of national infrastructure. At this Spending Round, the Government is taking further steps to enhance infrastructure delivery and will ensure that when it is responsible for delivery it has the skills, capacity and resources to procure and manage major contracts in a way that guarantees value for money for the taxpayer. These measures draw on lessons learnt from the successful delivery of major projects such as the Olympic Games and Crossrail and are vital steps in equipping the UK with a globally competitive national infrastructure.

To enable infrastructure to be delivered in the most efficient and expedient way, **certain projects and policy areas will be given greater flexibility to move money between years** than is currently permitted under the existing Budget Exchange rules. Flexibilities will be offered on a case by case basis, but areas that are likely to qualify for this include the Highways Agency (HA) and High Speed 2 (HS2) once it enters construction.

To continue to facilitate increased private sector investment in infrastructure, the Spending Round **extends the UK Guarantees Scheme by two years to December 2016**.

The Spending Round also announces that:

- the proposed new nuclear power station at **Hinkley Point C is eligible for a UK Guarantee, in addition to over 25 projects worth £13.5 billion** which have also been prequalified for the UK Guarantee Scheme;
- the **Mersey Gateway Bridge will receive a UK Guarantee** of up to £500 million to enable construction to begin early next year;
- **HM Treasury is working with the Greater London Authority (GLA)to support housing regeneration in Tottenham** through the UK Guarantee Scheme;
- **a control total for the commitments arising from off balance sheet Private Finance Initiative (PFI) and Private Finance Two (PF2) contracts**, limiting payments in nominal terms in each future Parliament, will be set at £70 billion for the five years from 2015-16; and
- **Lord Deighton has been given a mandate by the Prime Minister and Deputy Prime Minister to overhaul the delivery of public-sector infrastructure projects and programmes.** Key to this new approach will be the introduction of a presumption that significant economic infrastructure projects and programmes should be undertaken by specialist delivery units with commercial expertise. This will include:
  - drawing on the Brown Review of the franchise programme and the work of Lord Deighton to improve delivery of significant infrastructure projects, **the Department for Transport (DfT) will bolster its commercial capability in rail franchising.** By December 2013, DfT will conclude its evaluation of the options and set out plans for the future location of these functions so as to ensure the optimal management and delivery of the Government's rail

franchising programme;

- drawing on the findings of the Cook Review, **the Highways Agency will be transformed in to a publicly-owned corporation** which has the long-term funding certainty and flexibility which will enable it to deliver capital efficiencies worth £600 million by 2020-21. This investment and these reforms will be underpinned by legislation to provide certainty for the public, business and industry;
- **Broadband Delivery UK** will be given greater operational freedom and an enhanced delivery focus, and will be equipped with the commercial skills it needs to deliver a broadband programme that will now extend to at least 2017;
- specialist delivery bodies will be used as the primary vehicle for implementation of **Electricity Market Reform**. Contracts for Difference and the Capacity Market will be delivered through the National Grid and – for ongoing management of Contracts for Difference – the newly established counterparty body. Ofgem will have an important role in overseeing the arrangements;
- the Department of Energy and Climate Change (DECC)will be appointing a licensed company to manage the communications and data services that will support the roll out of **Smart Meters** across Great Britain; and
- **the Department for Environment and Rural Affairs (DEFRA) will continue to strengthen its commercial capability and Departmental 'sponsor' function**, including working with the Environment Agency to ensure that the lessons from Lord Deighton's assessment are applied to the delivery of its ambitious flood defence programme. It will also consider how the model of specialist commercially-focused delivery units could be used to strengthen the delivery of future infrastructure projects and programmes, including the Government role in the **Thames Tideway Tunnel**.

Focusing on the long term

10.1 The Government is extending and enhancing its long-term focus on delivery. To enable infrastructure to be delivered in the most efficient and expedient way, certain projects and policy areas will be given greater flexibility to move money between years than is currently permitted under the existing Budget Exchange rules. Flexibilities will be offered on a case by case basis, but areas that are likely to qualify for this include the Highways Agency and HS2 once it enters construction.

10.2 The Government will now allow departments to carry forward receipts from asset sales into future years, improving incentives to promptly release assets which could be better managed in the private sector and to use receipts to invest in the highest value for money projects.

Infrastructure finance

10.3 Given that the majority of UK infrastructure is funded by the private sector, the Government is using all means at its disposal to unlock the finance needed to mobilise billions of pounds of infrastructure investment. Although the UK continues to be an attractive destination for private investment in infrastructure, the fallout from the financial crisis means that it is less attractive for banks to provide the type of long-term debt needed by infrastructure projects.

10.4 To avoid delay and continue to facilitate increased private sector investment in infrastructure, the Spending Round extends the UK Guarantees Scheme by two years to December 2016. The Spending Round also announces that:

- the proposed new nuclear power station at Hinkley Point C is eligible for a UK Guarantee, in addition to over 25 projects worth £13.5 billion which have also been prequalified for the UK Guarantee Scheme;
- the Mersey Gateway Bridge will receive a UK Guarantee of up to £500 million to enable construction to begin early next year; and
- HM Treasury is working with the Greater London Authority to support housing regeneration in Tottenham through the UK Guarantee Scheme.

10.5 Following the signing of a memorandum of understanding between the Government, the National Association of Pension Funds (NAPF) and Pension Protection Fund to create the Pension Investment Platform (PIP), the 10 founding investors have committed £1 billion in total capital allocations to the platform. The NAPF expects the PIP to be in a position to begin investing later this year.

10.6 As announced in *A New Approach to Public Private Partnerships* published alongside Autumn Statement 2012, the Government is introducing a number of measures to address the concerns of Parliament and other stakeholders who have called for greater transparency and accountability over Private Finance Initiative (PFI) arrangements. Building on the steps the Government has already taken to provide greater transparency, through the publication of an assessment of PFI liabilities in the Whole of Government Accounts, the Government announced at Autumn Statement 2012 that it would introduce a control total for the commitments arising from off balance sheet Private Finance Two (PF2) contracts. This reform represents international best practice.

10.7 The Spending Round announces that the control total will include the existing stock of PFI contracts as well as new PF2 contracts signed, and cover payments for the ongoing maintenance of the assets, the provision of services and repayment of, and interest on, debt used to finance the project. The coverage of the control total will include all PFI and PF2 contracts funded by central government. The control total will limit payments under PFI and PF2 contracts in nominal terms in each future Parliament and will be set for the five years from 2015-16 at £70 billion. Performance will be assessed on an annual basis at Budget.

Transforming Government's approach to infrastructure delivery

10.8 The Government is also committed to going further in its efforts to improve infrastructure delivery. To create the right environment for delivery, the Government needs to learn from its own successes and emulate the hallmarks of private-sector organisations with a track record of effective delivery: a relentless focus on outcomes, absolute clarity of responsibilities and governance, and commitment to ensuring that those tasked with delivery have the expertise, autonomy and authority to achieve results. This has traditionally been harder to achieve where delivery functions are embedded in Departments which are often policy-focused.

10.9 To respond to this challenge, Lord Deighton has been given a mandate by the Prime Minister and the Deputy Prime Minister to overhaul the delivery of public-sector infrastructure projects and programmes. Key to this new approach will be the introduction of a presumption that significant economic infrastructure projects and programmes should be undertaken by specialist delivery units with the commercial expertise to drive project management and implementation, reflecting private-sector best practice. These units should be supported by a streamlined and commercially-aware Departmental 'intelligent sponsor' function, which sets clear strategic and policy direction and provides robust and informed oversight and challenge – without micro-managing the day-to-day details of project execution.

10.10 The Government will look at what flexibilities these specialist delivery units need to recruit and retain staff with the appropriate delivery skills and expertise, and will establish how the central cadre of commercial specialists in Infrastructure UK (IUK), the Major Projects Authority (MPA) and other centres of excellence can best support project delivery in these units. This work will build on the recommendations made by the National Audit Office (NAO) and Public Accounts Committee (PAC), reinforced by the findings of the Lord Browne review[1] and the ongoing work of the MPA, on strengthening project execution, as well as wider initiatives to enhance commercial skills as part of Civil Service Reform.

10.11 To take this forward, the Government has therefore decided to extend the scope of the work it put in place at Budget 2013 on Infrastructure Capacity Plans, which the key infrastructure Departments have been developing with the support of IUK, the MPA and the Shareholder Executive. Lord Deighton will now work with these departments to determine how this new delivery model should be implemented in practice on a case-by-case basis. Further detail will be published at Autumn Statement 2013 covering the following areas.

Department for Transport

10.12 Drawing on the Browne Review[2] of the franchise programme and the work of Lord Deighton to improve delivery of significant infrastructure projects, DfT will bolster its commercial capability in rail franchising.

10.13 The immediate priority continues to be to stabilise the franchising programme. DfT has strengthened the governance of the programme and increased its capability in franchising, bringing in industry expertise and creating dedicated specialist teams for each franchise competition within a new Rail Franchising Directorate. To ensure the success of the programme, the Government will explore the flexibilities that may be required to attract and retain the necessary commercial skills.

10.14 The Brown Review recommended that, in the medium term, DfT gives consideration to where franchise procurement and management should be located. Recognising the importance of this issue, the department has already begun the work recommended, looking at the three options identified by the Brown Review: the central department; an Executive Agency; or a new body at arm's length from DfT. Whatever the structure, decisions would remain under ministerial control with the franchising team led and staffed by professionals with appropriate commercial experience and skills.

10.15 By December 2013, DfT will conclude its evaluation of the options and set out plans for the future location of these functions so as to ensure the optimal management and delivery of the Government's rail franchising programme.

10.16 Drawing on the findings of the Cook Review[3], the Highways Agency will be transformed in to a publicly-owned corporation which has the long-term funding certainty and flexibility which will enable it to deliver capital efficiencies worth £600 million by 2020-21. This

[1] *Getting a Grip: How to Improve Major Project Execution in Government*, Lord Browne of Madingley, March 2013.

[2] *The Brown Review of the Rail Franchising Programme,* Richard Brown, January 2013

[3] *A Fresh Start for the Strategic Road Network,* Alan Cook, November 2011

investment and these reforms will be underpinned by legislation to provide certainty for the public, business and industry.

10.17 DfT will continue to work with HS2Ltd to ensure there is clarity on the interface between policy and delivery as work on HS2 develops.

Department for Culture, Media and Sport

10.18 Broadband Delivery UK will be given greater operational freedom and an enhanced delivery focus and will be equipped with the commercial skills it needs to deliver a broadband programme that will now extend to at least 2017.

Department of Energy and Climate Change

10.19 Specialist delivery bodies will be used as the primary vehicle for implementation of Electricity Market Reform. Contracts for Difference and the Capacity Market will be delivered through National Grid and – for ongoing management of Contracts for Difference – the newly established counterparty body. Ofgem will have an important role in overseeing the arrangements. DECC will publish more details on the respective roles of these bodies in the delivery of the programme in the autumn.

10.20 DECC will also be appointing a licensed company to manage the communications and data services that will support the roll out of Smart Meters across Great Britain.

Department for Environment, Food and Rural Affairs

10.21 DEFRA will continue to strengthen its commercial capability and departmental 'sponsor' function, including working with the Environment Agency to ensure that the lessons from Lord Deighton's assessment are applied to the delivery of its ambitious flood defence programme.

10.22 It will also consider how the model of specialist commercially-focused delivery units could be used to strengthen the delivery of future infrastructure projects and programmes, including the Government role in the Thames Tideway Tunnel.

Project scrutiny and assurance

10.23 All major projects, including infrastructure projects, will continue to be subject to joint Cabinet Office and HM Treasury assurance and scrutiny processes through the Major Projects Review Group, to ensure they represent value for money for the taxpayer.

10.24 In considering how to take forward the PAC, NAO and Lord Browne recommendations to increase the success rate for major projects, the MPA is working with IUK and HM Treasury to develop its role. Critical to this is the clear understanding that projects must be scoped, resourced and designed effectively from the outset. The MPA and IUK are therefore taking forward work to strengthen the assurance process at the initiation stage of major Government projects to ensure that delivery issues are explicitly considered upfront, mirroring best practice in the private sector.

Next steps

10.25 In order to ensure that the actions of Government and performance of infrastructure delivery are optimised for the long term, the Government will create an improved mechanism for tracking progress and managing information from projects in the infrastructure pipeline. A new Major Infrastructure Tracking team will be established within IUK to improve the Government's capability to monitor and track performance of critical infrastructure projects and a refreshed version of the pipeline will be published later this year.

10.26 A full update of the National Infrastructure Plan will be published at the time of the Autumn Statement 2013 drawing on independent expertise from the IUK Advisory Council, National Infrastructure Plan Strategic Engagement Forum and Infrastructure Client Working Group.

A Roads programme

Table A.1: National roads projects completed, under construction or due to start this Parliament

Project	Description	Start date	Completion date
M62 J25 - J30	Managed Motorways - increasing capacity	2011-12	2013/14
M4 J19-20 and M5 J15-17	Managed Motorways - increasing capacity	2011-12	2014-15
M6 J5-J8 (BBox Phase 3)	Managed Motorways - increasing capacity	2012-13	2014-15
A23 Handcross - Warninglid	Approximately 2.4 miles of dual three-lane carriageway to replace the existing dual two-lane carriageway	2011-12	2014-15
A11 Fiveways - Thetford	A11 will become a dual carriageway between Fiveways and Thetford.	2012-13	2014-15
M1 J28-31	Managed Motorways - increasing capacity	2013-14	2015-16
M25 J5-6/7	Managed Motorways - increasing capacity	2013-14	2014-15
M25 J23-27	Managed Motorways - increasing capacity	2012-13	2015-16
M6 J10a-13	Managed Motorways - increasing capacity	2013-14	2015-16
M3 J2-4a	Managed Motorways - increasing capacity	2013-14	2015-16
M1 J32-J35A	Managed Motorways - increasing capacity	2013-14	2015-16
M1 J39-J42	Managed Motorways - increasing capacity	2014-15	2015-16
A453 Widening (inc contribution)	Widening the urban section and upgrading the rural section to become a dual carriageway.	2012-13	2015-16
A14 Kettering	Enhance the A14 between junction 7 and junction 9	2013-14	2015-16
A1 Lobley Hill	Upgrade the A1 between Lobley Hill and the Dunston Interchange (A184) with junction improvements.	2014-15	2016-17
A30 Temple (inc contribution)	Widen the existing road to form the new dual carriageway	2014-15	2016-17

Manchester Managed Motorways	Managed Motorways - increasing capacity	2014-15	2016-17
A556 Knutsford - Bowdon	Dual carriageway link between M6 and M56	2014-15	2016-17
A45-A46 Tollbar End	Improve the A45 Stonebridge Highway and the Tollbar End roundabout in southern Coventry.	2013-14	2017-18
M1 J19 Improvement	Improve Junction 19 of the M1 motorway	2013-14	2016-17
A5/M1 Link (inc contribution)	Construct a two-lane dual carriageway running east from the A5 north of Dunstable to join the M1 at a new Junction 11a south of Chalton.	2014-15	2015-16
A160/A180 Immingham	Provide better access to the Port of Immingham and the surrounding area by improving the A160 between the junction with the A180 at Brocklesby interchange and the Port.	2015-16	2016-17
A1 Leeming to Barton	Replace the existing dual carriageway with a new three lane motorway	2013-14	2016-2017
M25 J30	Improve capacity of the highway network centred on M25 J30	2014-15	TBA

Table A.2: Local transport schemes completed, under construction or due to start this Parliament

Project	Scheme Type	Start date	Completion date
East of Exeter	Road		Completed
Mansfield Public Transport Interchange	Public Transport		Completed
A164 Humber Bridge to Beverley Improvements	Road		Completed
Walton Bridge	Road		Completed (July 2013)
White Rose Way Improvements Scheme	Road		Completed
Rochdale Interchange	Public Transport	2012-13	2013-14
Portsmouth Northern Road Bridge	Road	2012-13	2013-14
Evesham Bridge	Road	2012-13	2013-14
Todwick Crossroads Improvement	Road	2012-13	2013-14
Reading Station Highway Improvements	Road	2012-13	2014-15
A43 Corby Link Road	Road	2011-12	2014-15
Portsmouth Tipner Interchange	Road	2012-13	2014-15
Ipswich Transport Fit for 21st century	Mixed	2012-13	2014-15
Bath Transportation Package	Mixed	2012-13	2014-15
Weston Package Phase 1	Mixed	2012-13	2013-14
Nottingham Tram Extension (NET2)	Public Transport	2011-12	2014-15
Midland Metro Birmingham Extension	Public Transport	2011-12	2014-15

Manchester Cross City Bus	Public Transport	2012-13	2015-16
Kingskerswell Bypass	Road	2012-13	2015-16
Worcester Integrated Transport	Mixed	2012-13	2015-16
Camborne-Pool-Redruth Transport Package	Road	2013-14	2014-15
Loughborough Town Centre Imp	Mixed	2013-14	2014-15
London Road (Bridge) Derby	Road	2013-14	2014-15
Access York Phase 1	Public Transport	2013-14	2014-15
Beverley Integrated Transport Plan	Road	2013-14	2014-15
Luton Town Centre	Road	2013-14	2014-15
Bexhill-Hastings Link Road	Road	2013-14	2015-16
Mersey Gateway (PFI)	Road	2013-14	2016-17
A18-A180 Link (Immingham)	Road	2013-14	2014-15
Taunton Northern Inner Distributer Road	Road	2013-14	2014-15
Leeds Inner Relief Road Maintenance	Maintenance	2013-14	2014-15
Nottingham Ring Road	Road	2013-14	2015-16
Pennine Reach (Blackburn)	Public Transport	2013-14	2016-17
Chester Road	Road	2013-14	2014-15
Heysham-M6 Link Road	Road	2013-14	2015-16
Darlaston Access Improvement	Road	2013-14	2015-16
Leeds Station Southern Access	Public Transport	2013-14	2014-15
South Yorkshire Bus Rapid Transit North	Public Transport	2013-14	2015-16
Sunderland Strategic Corridor	Road	2014-15	2017-18
Coventry-Nuneaton Rail	Public Transport	2014-15	2015-16
Bristol Bus Rapid Transit Ashton Vale to Temple Meads	Public Transport	2014-15	2015-16
Leeds Rail Growth	Public Transport	2014-15	2015/16
Thornton to Switch Island (Sefton)		2013-14	2014-15
Croxley Rail Link	Public Transport	2014-15	2016-17
A45 Westbound Bridge	Road	2014-15	2015-16
Crewe Green Link Road	Road	2014-15	2015-16
Bedale/Aiskew/Leeming Bar Bypass	Road	2014-15	2016-17
Morpeth Northern Bypass	Road	2014-15	2015-16
Hucknall Town Centre Improvements	Mixed	2014-15	2016-17
Bristol Bus Rapid Transit North Fringe to Hengrove	Public Transport	2014-15	2017-18
Lincoln Eastern Bypass	Road	2014-15	2016-17
South Bristol Link	Mixed	2014-15	2017-18
Norwich Northern Distributer Road	Mixed	2015-16	2017-18
Elmbridge Transport	Public Transport	2015-16	2016-17
Leeds New Generation Transport	Public Transport	2016-17	2019-20

Table A.3: Feasibility studies this Government will undertake

Feasibility studies
A303/A30/A358 Corridor
A1 North of Newcastle
A1 Newcastle-Gateshead Western Bypass
A27 Corridor (inc. Arundel and Worthing)
Trans-Pennine routes
Connectivity to Leeds Airport, including consideration of issues around the A657

Table A.4: Pipeline of HA road schemes which the Government is committed to funding as part of this Spending Round, subject to value for money and deliverability

Project	Description
A19/A1058 Coast Road	Alleviating congestion on the A19 and improving strategic links. This is between Newcastle and South Shields.
A63 Castle Street	Improving access to the Port of Hull, relieve congestion, improving links to developments. Castle Street is the section of the A63 in the centre of Hull by the port.
A19 Testos	New flyover at the Testos junction which connects the A19 and the A184, south of Newcastle.
Junctions between Birmingham and Manchester (M6 J16-19)	Managed Motorways. Junctions from near Crewe to Knutsford.
South Birmingham Junctions (M5 J4a-6)	Managed Motorways. Junctions near Bromsgrove to Worcester.
A 14 Cambridge to Huntingdon	Upgrade to A14 between Cambridge and Huntingdon. Funding supported by contributions from local authorities and local enterprise partnership plus tolling.
Derby Junctions (A38)	The three junctions are: • A38/A5111 Kingsway roundabout • A38/A52 Markeaton roundabout • A38/A61 Abbey Hill roundabout
M1 Junctions near Long Eaton (J24-25)	Managed Motorways. Junctions by Long Eaton.
M1 Junctions south of Rugby (J13-19)	Managed Motorways. Junctions to the East of Milton Keynes to just North of Rugby.
A21 Tonbridge to Pembury	Upgrade the A21 between Tonbridge and Pembury to dual 2-lane carriageway standard with grade separated junctions at the Fairthorne and Longfield Road Junctions at the south end of the scheme.
M4 J3 - J12	Increasing the capacity of the M4. This project is located on 31 miles of the M4 Motorway between the A312 at Heathrow Airport to Theale in Berkshire.
Gatwick Junctions (M23 J8-10)	Managed Motorways. Junction with M25 to Gatwick Airport.
A27 Chichester Bypass	Upgrading 6 junctions on the existing 3.5m bypass.

Table A.5: Pipeline of further HA managed motorway schemes which the Government is committed to funding, subject to finalisation of the options and consideration of their business case and deliverability

Project	Description
Manchester Junctions (M60 J24-27 and 1-4)	Managed Motorways. This is the Manchester orbital road. These junctions are on the SE of the road.
Manchester Junctions (M62 J10-12)	Managed Motorways. These are the junctions between the M6 and the M60 (Manchester orbital).
West Manchester Junctions (M6 J21a-26)	Managed Motorways. Junctions between the M62 and M58 near Wigan.
M56 Junctions 6 to 8	Managed Motorways between junctions 6 and 8 south of Altrincham.
Junctions between Birmingham and Manchester (M6 J13-15)	Managed Motorways. Junctions from near Stafford to Stoke on Trent.
Junctions between Coventry and Birmingham (M6 J2-4)	Managed Motorways. Coventry to East of Birmingham.
Southampton Junctions (M27 J4-11)	Managed Motorways. Junction with M3 towards Portsmouth.
Southampton Junctions (M3 J9-14)	Managed Motorways. From Winchester to junction with M27.
Maidstone Junctions (M20 J3-5)	Managed Motorways. Junctions to the North of Maidstone.

Table A.6: Pipeline HA road schemes which the Government is committed to funding subject to finalisation of options and agreement being reached on developer contributions

Project	Description
M54 to M6 Toll link road	New link road improving access from the M54 to the M6.
A new M20 junction 10a and a new link road	A new M20 Junction 10A and link road to the A2070 at Ashford in Kent with a new dual carriageway link road to the existing A2070 Southern Orbital Road and also connect to the A20 Hythe Road.
A2 Ebbsfleet junction	Improvements to the A2 junction at Ebbsfleet in North Kent between Dartford and Gravesend.

TSO
information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, telephone, fax and email
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/general enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Houses of Parliament Shop
12 Bridge Street, Parliament
Square, London SW1A 2JX
Telephone orders/general enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: shop@parliament.uk
Internet: http://www.shop.parliament.uk

TSO@Blackwell and other accredited agents

HM Treasury contacts

This document can be downloaded from
www.gov.uk

If you require this information in another
language, format or have general enquiries
about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN 978-0-10-186692-7

9 780101 866927