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National Infrastructure Commission (NIC): Call for Written Evidence

Introduction

RICS – Royal Institution of Chartered Surveyors - is pleased to respond to the above consultation. Intelligent infrastructure planning is vital to the social and economic health of the country, and the creation of the NIC to identify the UK's infrastructure priorities is hugely welcome. The Commission now needs to fulfill its potential, and our response sets out some of our ideas on how this can be achieved.

RICS is the leading organization of its kind in the world for professionals in property, construction, land and related environmental issues. As an independent and chartered organization, RICS regulates and maintains the professional standards of over 100,000 qualified members (FRICS, MRICS and AssocRICS) and over 50,000 trainee and student members.

It regulates and promotes the work of these property professionals throughout 146 countries and is governed by a Royal Charter approved by Parliament, and monitored by the Privy Council, which requires it to act in the wider public interest.

Since 1868, RICS has been committed to setting and upholding the highest standards of excellence and integrity – providing impartial, authoritative advice on key issues affecting businesses and society. RICS is a regulator of both its individual members and firms enabling it to maintain the highest standards and providing the basis for unparalleled client confidence in the sector.

RICS and Infrastructure

Our members are integral to providing the necessary project management and cost savings through the whole life of infrastructure projects. They use professional standards and relevant guidance, as well as benchmark data, to deliver projects on time and on budget. This ensures that infrastructure projects are considered, planned for, financed and executed appropriately, crucial to ensuring business and investor confidence. In addition, we can provide expertise on spatial planning and locational investment to equip the Commission to make effective strategic choices on the UK's infrastructure priorities.

We were at the forefront of calling for a National Infrastructure Commission to develop a long-term strategic approach to the UK's infrastructure needs, and the establishment of the Commission last year was a highly intelligent step towards achieving this. We are continually

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developing our activities in the infrastructure sphere and will work closely with the Commission to meet the UK's infrastructure needs.

We are unique amongst the professional institutions for the built environment in the breadth and depth of our understanding across land, property and construction. We also have strong working relationships with other organisations across the sector, and are uniquely placed to engage with the Commission to develop a holistic strategic approach.

It is in this spirit that we have launched the Infrastructure Forum Steering Group, which is designed to give a voice to the best practice commercial delivery on UK infrastructure projects, and to lead a significant forum of professionals who seek to maintain and enhance value outcomes for lower levels of expenditure. The membership of this group includes leading figures from across the built environment, not just RICS members, and can be an invaluable source of advice, expertise and input for the work of the Commission.

Our President-Elect Amanda Clack plays a leading role in the infrastructure sector as Head of Infrastructure at EY. Her previous experience of working across land, property and construction for PwC gives her a unique insight into the issues involved, and she has written extensively on the challenges that need to be overcome if we are to deliver the UK's infrastructure requirements. Amanda has steered our infrastructure work and will continue to do so when she becomes President later this year. Her appointment as President will be another opportunity for RICS to support the work of the NIC and we look forward to continuing our collaboration.

This submission addresses a selection of the questions raised in the call for evidence. We have engaged widely across the sector in formulating the response, which is based on a large number of research papers, thought leadership pieces and other documents which can be provided to the Commission upon request.

Connecting Northern Cities

1. To what extent are weaknesses in transport connectivity holding back northern city regions (specifically in terms of jobs, enterprise creation and growth, and housing)?

Our members strongly perceive the lack of sufficient connectivity between northern city regions to be a severe constraint on economic growth and a threat to the realisation of the Northern Powerhouse. The 2014 Report produced to support the Higgins Review of HS2 – *Transport Constraints and Opportunities in the North of England* – identified many of the costs associated with the relative weakness of connectivity infrastructure in northern regions – specifically between the large city regions. For example, commuting between Manchester and Leeds is found to be 40% lower than would be expected given the size, location and socio-economic profiles of the two city regions[1]. This is largely due to prohibitive transport costs associated with such commutes, in the form of longer journey times and ticket prices. This has a real knock-on effect in terms of labour mobility, the flexibility of the housing market and business creation.

[1] Steer Davies Gleave, *Transport Constraints and Opportunities in the North of England*, 2014

The problem of connecting northern cities is particularly significant because, in common with all areas of the UK, the economic health of the region as a whole is dependent on economic growth within its largest cities. Urban areas benefit from the advantages associated with the concentration of jobs and enterprises within a specific area. Productivity is higher in urban centres, with output per worker 15% more than in rural areas. The five largest Northern cities of Manchester, Liverpool, Leeds, Sheffield and Newcastle account for 60% of the region's Gross Value Added (GVA), and for this strength to be leveraged for the benefit of the whole region, the transport infrastructure connecting them needs to be radically improved.

Infrastructure spending per head in the North is vastly lower than in London. For example, whilst the figure for London is £5,426 per head, the North West receives £1,248, Yorkshire and the Humber £581 and the North East a mere £233[2]. Whilst it is understandable that investment in the capital is very high, the disparity needs to be addressed if the government is to achieve its stated objective of rebalancing the UK economy and unleashing the potential of the Northern Powerhouse.

2. What cost-effective infrastructure investments in city-to-city connectivity could address these weaknesses?

The announcement in the Autumn Statement that HS2 will extend from Birmingham to Crewe 6 years earlier than initially planned was very welcome given the need for certainty and clarity over investment plans. Our members were also pleased to see the funding for Transport for the North (TfN) confirmed at £50 million as part of an overall transport budget of £13 billion.

The simple fact is that the Northern Powerhouse does not at present have any real meaning as a coherent entity due to the excessive travel times between its various regions. For example, a rail journey from Newcastle to Manchester takes 2-3 hours, whilst a journey from Liverpool to Hull takes 3 hours. This is in stark contrast with the south, where journeys of similar distances typically last less than 2 hours. To address these issues, the Manchester-Leeds transport corridor needs to be improved, and cities currently outside of major planned developments such as HS2 need to be better integrated into the system as a whole. Road transport should be similarly improved, as the motorway network currently suffers from many of the same shortcomings as the rail system.

It should also be recognised that there are significant gains to be made from improvements to the existing infrastructure – connectivity improvements between northern hub cities will not always necessitate entirely new projects. Too often infrastructure is seen as being synonymous with brand new schemes, and the benefits of maintaining and improving existing transport links should not be underestimated.

3. Which city-to-city corridor(s) should be the priority for early phases of investment?

[2] IPPR North, *Transformational Infrastructure for the North*, 2014

As is referred to above, the economic health of the North as a whole depends on stronger transport links between all of its core cities. Until connectivity between cities such as Newcastle, Liverpool and Hull is improved to create a single, coherent economic unit, there is no incentive for policymakers in any of these regions to agree to investment in improvements in other areas when their electorate or employees cannot benefit because travel times and fares put jobs there out of reach.

The concept of a HS3 corridor between Manchester and Leeds would be a good starting point, but it is vital that the concerns of other cities are also addressed. In particular, there is a perception in the North-East that cities such as Newcastle, Sunderland and Middlesbrough could be left out of the equation as the Northern Powerhouse agenda proceeds. These cities must be given careful consideration as the network as a whole is developed.

4. What are the key international connectivity needs likely to be in the next 20-30 years in the north of England (with a focus on ports and airports)? What is the most effective way to meet these needs, and what constraints on delivery are anticipated?

In terms of the North East of England, the joint report 'Faraway so close: the North East as an international gateway' from IPPR and NECC puts forward a well-argued case for the development of North East ports and airports to create a better international gateway on the eastern side of the country (http://www.ippr.org/publications/faraway-so-close-the-north-east-as-an-international-gateway). This would underpin the development of manufacturing in the region, which remains the only English region with a consistent positive balance of trade.

5. What form of governance would most effectively deliver transformative infrastructure in the north, how should this be funded and by whom, including appropriate local contributions?

A major threat to the delivery of a coherent and integrated transport system for the North is the fragmentation of governance structures. As has already been stated, the Northern Powerhouse is not (and arguably can never be) a monolithic entity. The region comprises numerous different cities and areas with different agendas and priorities; the creation of a successful infrastructure network serving the whole of the north requires that these disparate areas cooperate and coordinate with one another.

The establishment of TfN was a welcome step in terms of the strategic oversight it can provide for transport infrastructure in the north. It is vital that this body works closely with industry leaders and elected Mayors in ascertaining the needs of the region, and the RICS is willing to provide support and advice. At present TfN is very much public-sector dominated and it must work in close partnership with the private sector if it is to be effective.

The devolution announcements made by the Chancellor last year were a bold statement of intent with regards to shifting power from Whitehall to local authorities, and could be the start of a process that allows all regions of the UK to fulfil their potential. In practice, the delivery of City Deals now needs to ensure that fragmentation is avoided. For example, whilst directly elected

Mayors can provide effective local leadership in delivering infrastructure developments, they could also result in competing demands and conflicts of interest which hinder developments of regional and national strategic importance. Mayors will need to recognise the value of collaboration, and the NIC should make a compelling case for cooperation between cities when publishing its National Infrastructure Assessments.

The granting of powers over business rates to elected Mayors, giving them the power to increase the rate by 2% to fund major infrastructure projects (in agreement with local businesses) is a welcome incentive for Mayors to take ownership of development in their regions. By decoupling infrastructure spending from the vagaries of direct government grants, this should help northern cities take a more flexible and strategic view of long-term infrastructure requirements, and again this is an area where the recommendations of the NIC can add significant value. However, more clarity is needed on whether the increased funding from business rates retention and the power to increase rates will be sufficient to meet any shortfall from the reduction of direct grants. The final funding settlement needs to ensure infrastructure spending is protected.

London's Transport Infrastructure

1. What opportunities are there to increase the benefits and reduce the costs of the proposed Crossrail 2 scheme?

The Government's Construction 2025 strategy set ambitious targets to reduce costs by 33% and delivery times by 50%. For these ambitions to be met on large-scale strategic infrastructure projects like Crossrail 2, delivery needs to be significantly improved – around 75% of capital projects are still reported as going over budget. The surveying professionals represented by the RICS, particularly commercial managers and quantity surveyors, are indispensable to the achievement of cost savings on the scale required.

A key element of the Construction 2025 strategy is the creation of an infrastructure sector "underpinned by strong, integrated supply chains and productive long term relationships". To explore how this vision can be realised, RICS are currently working on a number of high-level Insight Papers to be published over the next year, across Building Information Modelling and Engineering, SME Engagement, Skills & Training, Team Building, Procurement, and Whole Life Cycle Costing of Rail Assets. The findings of these papers will apply to all rail projects, and will be especially applicable to the delivery of Crossrail 2.

The working hypothesis underpinning these Insight Papers recognises that the rail infrastructure industry is naturally fragmented but that better alignment could be secured through reaching a better understanding of enablers and measures (e.g. technology, policies, and training) and by focusing on ways of removing such barriers.

In addition, some of our members have expressed the desire to see stronger links between Crossrail 2 and Gatwick Airport as a way of improving access from across the capital and by extension, across the South-East more broadly.

2. What are the options for the funding, financing and delivery of large-scale transport infrastructure improvements in London, including Crossrail 2?

The past decade has seen some major strategic successes in the delivery of large-scale infrastructure projects in the capital, most notably on the 2012 Olympics and Crossrail. These achievements were made possible because they were based on a political consensus, a bold strategic vision, and they made effective use of innovative public-private delivery partnerships. Future infrastructure projects need to recognise what went right in these cases and where possible, replicate their experience.

The successful delivery of infrastructure requires both public strategic oversight and private delivery and funding mechanisms. The benefits of infrastructure for private investors are primarily the scale, longevity and certainty of long-term returns, and the NIC should assess how the full potential of private investment in the sector can be unlocked. We have already written to Commercial Secretary to the Treasury Lord O'Neill offering to convene a review of the barriers to infrastructure investment through collaboration across the built environment professions. Infrastructure cannot be entirely reliant on international investment and pension funds, and we are willing to work with the Commission to explore in-depth how funding can be obtained from other sources.

Electricity Interconnection and Storage

1. What changes may need to be made to the electricity market to ensure that supply and demand are balanced, whilst minimising cost to consumers, over the long-term?

The most effective way to minimise cost to the consumer is to ensure that as new forms of energy come forward, they are delivered in a technology neutral manner deploying the lowest cost generation mix. A mix of intermittent and base load needs to be delivered with the true cost of carbon being accounted for, coupled with the likelihood that currently all forms of new generation need some form of market support mechanism.

In the short term given the lack of new generation and investment coming forward, there needs to be certainty for investors in new generation, something that the ongoing changes to renewables and CCS funding have severely affected.

Balancing supply and demand will require the mix of generation types, whilst the meeting of climate change targets will require continued deployment of renewables alongside other new low carbon base load. In the short term the premature closure of existing thermal coal plants will adversely affect supply/demand and balancing if these plants are taken off line before there is a

clear pathway to delivering fossil fuel plants with carbon capture and storage. If an SO can assist in achieving these objectives then it will be of benefit.

2. What are the barriers to the deployment of energy storage capacity?

The energy storage sector within the UK is immature and requires policy, regulatory and market support mechanisms to ensure that the long-term investment required can be delivered.

There is a need for storage technology at all of levels. For those that would work within the transmission network and distribution network scales, the investment will be significant and therefore needs clear government focus and support to ensure that new storage investment and technologies are able to come forward and work effectively within the current UK market mechanism.

3. What level of electricity interconnection is likely to be in the best interests of consumers?

Interconnection plays an important part of the UK supplier/demand arrangements, but there appears to be an increasing over-reliance upon interconnection with mainland Europe rather than bringing new generation capacity on stream within the UK. There are a number of implications of this, including over reliance on non-UK generation at the time of tight capacity margins. They do nothing to stimulate investments into new UK-based low carbon generation, whilst adding to carbon leakage as emissions have the potential to become 'offshored'. For example, fossil fuel plant within the UK has to bear the significant extra cost of the UK's unilateral carbon floor price, whilst fossil fuel generation in Europe does not bear the same level of carbon taxation, and is able to export into the UK via interconnectors.

Yours faithfully

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