

A NATIONAL INFRASTRUCTURE COMMISSION FOR WALES CONSULTATION RESPONSES

Summary

As is outlined more fully below, an 'NIFCW' whose remit includes only of analysis, advice, and making recommendations is not, in our submission, the best option. Another advisory body is not the best option where there are too many such bodies and where there is a need for greater focus on delivery.

In the following responses, where the operational remit and actions of an 'NIFCW' is referred to, the intention of this submission is to argue for executive agencies in place of the advisory body envisaged in this consultation.

If created, such an executive style 'NIFCW' (together with City Region based bodies) should have powers that would include:

- conducting research on integrated infrastructure needs and solutions and providing advice for decisions to be made by the WG
- procurement powers that would include carrying out due diligence processes
- project management capacity to oversee projects to their completion

With respect to procurement powers there would need to be a clear division of responsibilities and duties between the 'NIFCW' and, for example, the remits of Value Wales, the National Procurement Service, and the Welsh Government's Departments and Agencies that govern relevant infrastructure.

An 'NIFCW' would benefit from advice and guidance from relevant organisations and be in constant dialogue with other governance organisations.

Risks and Issues to be Tackled

The 'NIFCW', as proposed in the consultation runs several risks. These include:

- adding to the plethora of advisory bodies that already exist;
- setting up a body with a remit that covers areas that are too widely spread to be effectively integrated;
- and duplicating work already done by other bodies such as Transport for Wales and NRW.

There is also the more fundamental question of what problems, deficiencies, or issues an NIFCW is designed to address. An indicative list of these would include:

- lack of stability in infrastructure planning, where priorities change with incumbent Minister
- lack of knowledge and research about the relative benefits of different developments, which runs the risk of decisions being taken purely in terms of political convenience. This is particularly the case when dealing with very large projects such as the M4 development around Newport.
- the influence of the political cycle, leading to short-termism and the urgent dominating the important

- a rather random approach to the financing of infrastructure, which is too dependent on departmental budgets. The WIIP, for example, had no priorities and no central consideration given to which projects should be financed by internal capital, and which by debt. Marginal projects, therefore, tend to be the ones that are debt-financed, which may not always be cost-effective.
- a doubt as to whether procurement is economically and socially efficient. Value Wales, for example, seems to be primarily focused on internal procurement for Government itself, where procedures seem to be risk averse, and favour established international companies

The General Context for an Infrastructure Commission

The abandonment (to all intents and purposes) of the Wales Spatial Plan, and in the absence of a robust economic strategy, a major component of the proposed NIFCW's work, namely a national transport plan, has no strategic underpinning. It is, therefore, bound to be reactive, addressing current bottlenecks as they appear, often in a haphazard order. Many experts would argue that this is not, in fact, a problem, and that being reactive is the best way to organise such spending, rather than to attempt a grand strategic approach that could potentially lead to white elephants and resource misallocation. Even if we agree that the incremental, reactive approach is correct, Government still needs a stronger means of grading bottlenecks or constraints, and setting priorities.

Some things follow directly from the list of issues outlined above. Firstly, it is not clear that yet another non-expert, part-time advisory body would make any contribution to solving any of them. We, therefore, reject that idea.

Secondly, there are different institutional arrangements that could be made to tackle the problems. An infrastructure commission is one possible solution but it is not a necessary one. The issue of a lack of stability referred to above could, for example, be solved by stronger Cabinet Government, with all changes of substance required to be signed off in Cabinet or by a specialist Cabinet sub-committee. Together with this, a specialist research unit could be set up within the Welsh Government with the necessary resources, perhaps in the Economy Department. Those two things together could go some way to addressing the issue of how to deal with large projects.

The influence of the political cycle is harder to tackle, but this is an argument in support of establishing an infrastructure commission with some degree of independence, whilst the financing arrangements could be resolved by an enhanced role for the new Welsh Treasury. The Treasury would be in the best position to optimise the combination of capital budgets and external finance, whilst procurement could also be improved by a change of policy and bringing in more expertise. Both these latter developments are required for other reasons in any case.

The conclusion from this analysis is that an infrastructure commission is not strictly necessary. Nevertheless, it has certain advantages as an approach. Firstly, the research or cost-benefit studies it conducts would be in the public domain and would have more prestige than the work of an internal unit. They could, therefore, promote informed public debate and have a greater influence on decision-making. Secondly, insofar as different infrastructure decisions are lodged with different Government

Departments, the location of an internal unit might be contested or give rise to turf wars between Departments and between Ministers.

Governance Context

An NIFCW is also being considered within the context of greater inter Local Authority co-operation with regard to economic development and associated infrastructure needs, as evidenced by the plans to develop City Regions, including the development and implementation of expenditure under City Deals. The development of infrastructure for Wales should be done within the context of coherent local and regional plans that reflect differing local priorities. There is currently an opportunity to ensure that local, regional, and pan-Wales views and needs are all taken into consideration. However, such a multi-level approach is not addressed in the consultation documentation. How different levels of government relate to each other and to a national body is, of course, important.

The suggested infrastructural areas for inclusion within the NIFCW's remit makes sense from some perspectives, being all likely to have effects on some component of other elements of infrastructure. However, in our opinion, gathering them all together under the auspices of a single Commission would run the risk of:

- unnecessary complexity given the range of concerns, which would include digital infrastructure to water management, waste, sea defences, and transport issues
- duplication of effort between individual (executive and advisory) agencies and the NIFCW

In saying this, however, we agree that the NIFCW's remit (and our proposed regional infrastructure bodies) should 'extend to providing advice on the interactions between economic and environmental infrastructure and social infrastructure'. This is particularly so in the case of housing, which is an important influence on the local economy, and which the Growth and Competitiveness Report for the Cardiff City Region has highlighted as central to the development of the region.

However, only road provision and coastal and flood defences are fully under the control of the Welsh Government. To implement policies in other areas, the government has to negotiate with Network Rail, companies owning the electricity, telephone, water, and gas grids, companies involved in the generation of electricity, and private companies running rail franchises, broadband or mobile telecoms services.

Projects in all of these areas will be carried out by the private companies concerned. If the Welsh Government wishes those companies to make investments that they would not make in any case in response to market conditions, it has to provide inducements. Would the proposed NIFCW's research and advisory function extend to these areas so that it could assist the Government in preparing for negotiations and could also scrutinize the proposals of private companies? What would that approach add to Government Departments employing their own expertise or using consultants? Since private companies will be the suppliers there does not seem to be a procurement role for the proposed NIFCW in these areas, but could it supervise or inspect project execution or contract compliance by private companies?

In addition, it is left to be resolved how the NIFCW would interact with Ofcom, Ofwat and other UK regulatory bodies in the infrastructure field and how it would interact

with the UK Infrastructure Commission, which will have some role in non-devolved infrastructure. Broadband infrastructure, for example, could be covered by two infrastructure commissions, two governments and a regulator.

Whilst it is important to view infrastructure as something that cuts across many areas currently governed by separate bodies, it is also important to recognise that, in fact, many of the concerns associated with different sorts of infrastructure are discrete and benefit from individual focus in arriving at proposals for development.

Political Context

Ultimately, decisions must remain political, but more, and better, public information and analysis must improve the process. This is also a requirement if, or when, the UK Government decides to promulgate an industrial strategy, to which a Welsh Government infrastructure plan needs to be dovetailed.

Insofar as political short-termism is a problem, an outside commission would be a balancing influence. Moreover, it would be an useful co-ordinating device for the infrastructure plans of City Regions.

Proposals for an Infrastructure Commission

Given the considerations discussed above, what would the Commission look like and how would it fit in with Welsh Government functions?

Financing and Political Considerations

Firstly, we do not think that the NIFCW should take over the planning of infrastructure finance, which should be a Welsh Treasury function. Some specialist expertise in the modalities and details of project finance could, however, be a useful part of its capabilities.

We do believe that the Commission should have specific expertise in procurement for certain types of infrastructure project with skilled staff seconded from Government. That would give the NIFCW the character of an executive agency, whilst policy decisions remained the prerogative of Government.

The NIFCW could provide advice and research to inform policy decisions and help determine the best means of achieving broader Government objectives, though final decisions would rest at the political level. The NIFCW would then be the centre of skill and experience in procurement and project management to deliver the projects.

This approach would have to be in tandem with a change in attitude at Welsh Government level to the process of making decisions, and in established financing arrangements.

Infrastructure investment will pay off relatively quickly, build capacity for the future, and employ construction resources to raise the short-term growth rate. But there are several questions to be answered:

How do we determine the importance of infrastructure relative to other government/regional capital spending?

In the present state of the Welsh (and regional) economy what infrastructure investment is likely to have the highest social return?

How complete a set of spatial and economic priorities is necessary to plan infrastructure interventions adequately?

How to choose among:

- Rail electrification in areas of mass transit
- Road development: A55, A465, M4 relief road etc
- High speed broadband roll-out
- Port development to service offshore energy
- Green energy development
- etc

Recent UK approaches to planning infrastructure provision is to respond to bottlenecks or, occasionally, anticipate them. That means infrastructure development will generally lag not lead economic activity. In addition, pressure for fairness, or party political considerations, will work against concentration of investments in favour of “buggin’s turn”. To resist these tendencies and pressures some plan is needed which has been discussed publicly and enjoys some consensus, and political choices are required.

If we consider that there is a backlog of worthwhile infrastructure projects in Wales, one approach is to expand the capital budget to the limit of safe borrowing in the context of (currently) a Welsh Government’s annual budget of about £15 billion. One per cent devoted to debt service on that figure would be £150 million, and at a borrowing rate of 4% for 30 years would mean an annuity rate < 6%, which supports debt of > £2.5bn.

Investing the borrowed money over 6 years, increases the capital budget by one third, but adds over ½ % each year to Welsh growth, before counting supply-side benefits. Investment in projects with revenue streams means part of debt service is not met from taxes. For some projects, local authorities could meet part of debt cost as well as borrowing, with or without TIF. If there is a non-government operator (e.g. a port authority) it can meet part of the debt cost. In all these cases the government commitment is for leveraging in other funds, so the total infrastructure investment can exceed the £2.5 billion postulated.

Operational Structure for NIFCW

The NIFCW, to be useful, would be stand-alone with its own executive and a supervisory board on which the government would be represented. The Commission’s work would be confined to projects of national scope, whilst acting in a coordinating role with City Regions. It would have a high-powered research capability combining technical and economic expertise to assess the cost-benefit ratio of different infrastructure projects (acknowledging uncertainties and incommensurables), while its reports would be published.

Decisions on infrastructure development would remain with the Government but decisions between alternative means of achieving the same broad ends would be informed by the work and opinions of the NIFCW. The Commission could also be the repository of procurement and project management skills that would deliver projects determined by Government. Note that these would cover only a part of all infrastructure, however, namely transport, and flood and coastal defence.

The separation of policy from execution has its dangers but also considerable advantages. The danger comes if policy is made without the input of people with practical experience of execution. However, this danger can be overcome quite readily if policy-making is intelligent and takes appropriate advice at the appropriate time. The advantage is that Ministers who have determined on a good policy are not automatically blamed for execution failures over which they have little control. The management or Commission board can assign, or take responsibility for significant failures, and personnel can change. If a policy is implemented contrary to published NIFCW advice, however, the political responsibility is clear.

Multi-level Governance Relationships

Projects currently falling under the auspices of Local Government or due to fall under the auspices of City Regions would not be in its remit. We propose, however, that intelligent use of proposed structures such as the City Regions is made. We propose that each city region (3 in total) should have an infrastructure executive agency. Each agency would work to develop coherent, regionally focussed, plans for infrastructure development, including a strong advisory/planning role in areas such as housing.

However, these agencies could seek input or advice from the NIFCW, and would be required to keep the NIFCW informed of their own plans so that they could be harmonized with each other or with national plans where necessary. It would be expected that the NIFCW would work closely with the regional equivalents set up by City Regions but with a clear division of responsibilities.

Accelerated investment would require partnerships with Local Authorities (in the guise of Combined Authorities /City Regions) and innovative approaches to public/private financial co-operation. The government will need to address its own incapacities in integrating planning as illustrated by the case with the WIIP, which was compromised by Welsh Government Departmental rivalries and short-term finance pressures.

Given the adoption of a tri-regional infrastructure executive agencies structure plus a national NIFCW, consultation could start with Agencies, Departments, Local Authorities/ Combined Authorities and business on a "wish list" of projects. The NIFCW then determines inter-infrastructure issues, estimates rough costs, and rank projects for draft plan, which is then signed off by Welsh Government Cabinet. Regionally-based steering groups/working parties could be set up for each project in order to:

- specify project in detail
- decide institutional structure and finance responsibilities
- determine costs

Detailed plans would be reviewed by the NIFCW and re-ranked if necessary. After which, the final sign-off by Cabinet is given, and the project may then proceed to implementation, overseen by the NIFCW and/or the appropriate regional infrastructure agency.

Concluding Remarks

Such a scenario would require that financial planning has to accompany physical planning, requiring, in turn, greater Welsh Treasury control of the Welsh capital budget. The infrastructure planning agencies would have to overcome the political distaste for “quangos”, whilst political and/or local rivalries will have to be overcome. The infrastructure bodies would also require a major job of management and co-ordination where failure would be high-profile.

Responses to consultations are likely to be made public, on the internet or in a report. If you would prefer your response to remain anonymous, please tick here: