HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

23 November 2016

The Rt Hon Lord Adonis
Chair
National Infrastructure Commission
11 Philpot Lane
London
EC3M 8UD

Dear Andrew,

REMIT LETTER FOR NATIONAL INFRASTRUCTURE COMMISSION (NIC)

In a challenging fiscal and economic environment, the government is committed to putting infrastructure at the centre of its economic and industrial strategy. High-quality infrastructure is a key element in boosting productivity and competitiveness, allowing businesses to grow and enabling them to extend supply chains, deepen labour and product markets, collaborate and innovate and attract inward investment. Investment in infrastructure also helps to unlock economic potential in individual regions and ensure that growth and opportunities are distributed across the country.

The government has placed the NIC at the heart of its infrastructure policy. The NIC has a key role in independently defining the nation's long-term infrastructure needs, prioritising and planning, and testing value for money, to ensure that investment is properly targeted to deliver maximum benefit. And central to this is the National Infrastructure Assessment (NIA) – an in-depth assessment of the UK's major infrastructure needs on a 30-year time horizon. The NIC's principal objectives will be to contribute to sustainable economic growth across the UK, to improve the UK's international competitiveness, and to improve the quality of life for people living in the UK.

The Charter for the NIC states that the government will provide the NIC with clear guidance by issuing a public remit letter, and that this will include a binding fiscal remit to ensure that the NIC's recommendations would be affordable. This letter sets out the NIC's remit and matters to which the NIC should have regard in its work. The remit applies equally to the upcoming NIA and ongoing and future specific studies.

The quality of the evidence base underpinning the NIC's recommendations will be a key consideration for the government, and the NIC should ensure that its recommendations are clearly prioritised. In developing its recommendations, the NIC should have regard to the trade-offs between maintaining and maximising the potential of existing infrastructure assets, and the opportunities arising from new infrastructure projects – in both cases, the NIC's judgements on the value for money case for each approach will be crucial. The NIC should build on the principles laid out in the Eddington Transport Study to ensure economic returns are maximised. The NIC should also consider the impact future technological change could have on infrastructure needs and solutions, and have regard to resilience factors that are connected to infrastructure policy. The NIC should ensure that its recommendations do not re-open decision-making processes where programmes and work have been decided by the government, or will be decided in the immediate future.

Fiscal Remit

While the need for infrastructure investment is clear, the government remains committed to fiscal sustainability, and is well-aware of the significant fiscal pressures that exist over the short- and medium-term. The fiscal remit set out today strikes an appropriate balance in light of this.

The NIC must be able to demonstrate that its recommendations for economic infrastructure are consistent with, and set out how they can be accommodated within, gross public investment in economic infrastructure of between 1.0% and 1.2% of GDP in each year between 2020 and 2050. This remit applies to both the NIA and future specific studies. The NIC should clearly prioritise their recommendations and explain which they consider are most critical in addressing the country's long-term infrastructure needs.

Please find with this letter an Annex which lays out further details on the fiscal remit.

Economic Remit

While the fiscal remit ensures that the NIC's recommendations take into account the impact on the taxpayer, it is important to recognise that much infrastructure is funded by consumers and billpayers. It is therefore vital that the Commission fully understand and recognise where the costs of these projects ultimately lie, and balance them against the expected benefits of their recommendations (such as boosting productivity or employment). As a result, when making recommendations the NIC should include a transparent assessment of the impact on costs to businesses, consumers, public bodies and other end users of infrastructure that would arise from implementing a proposal.

As laid out in the Charter for the NIC, the NIC will be required to carry out its work in accordance with this remit, alongside, where applicable, the terms of reference for specific studies. In all other respects, the NIC will have discretion to determine independently its work programme, methodologies and recommendations, as well as the content of its reports and public statements. The NIC should seek to be transparent and consultative in its work, engaging widely and building consensus for its recommendations.

The NIC must fully abide by this remit unless and until it is replaced in a subsequent remit letter.

Philip Hammond

PHILIP HAMMOND

ANNEX: Details on Fiscal Remit

Further details on the fiscal remit are as follows:

- The remit refers to investment in those sectors covered by the Commission (i.e. transport, energy, flood risk alleviation, digital communications, water, and waste sectors).
- Gross public investment includes: relevant departmental capital spending on infrastructure; Network Rail capital expenditure; and infrastructure investment through Local Authority Self-Financed Expenditure (LASFE) and by Transport for London. Under LASFE and Transport for London, infrastructure investment can occur independently from central government, and the Commission should recognise this when making their recommendations.
- The Commission’s remit is in line with UK government competence, respecting devolved responsibilities for infrastructure. As such, the fiscal remit does not include spending where infrastructure investment decisions rest with the devolved administrations in Scotland, Wales and Northern Ireland.
- The fiscal remit is a planning guideline, and not a commitment by government. Future investment decisions will ultimately be made by the Chancellor through fiscal event processes.
- Commission recommendations must be clearly costed. Estimates should recognise the uncertainties of costing significant, long-term infrastructure projects and policies (such as the possibility of cost overruns and the general risk of optimism bias). While recognising the Commission’s operational independence, the Government is happy to work with the Commission to ensure that cost estimates are as accurate and realistic as possible.
- Recommendations must abide by budgets set during the latest Spending Review – which at present is the 2015 Spending Review, where departmental settlements continue to 2020-21. If the Commission recommends additional spending (for example, in a future specific study) they should explain how it could be accommodated in these settlements.
- HM Treasury will provide the Commission with further detail on what costs have been committed, including beyond 2020-21 (for instance long-term infrastructure projects).
- To convert the remit into nominal terms, the Commission should use the Office for Budget Responsibility’s medium-term nominal GDP forecasts, as set out in their Fiscal Sustainability Report.