

National Infrastructure

Commission:

**Annual report and accounts for the
year ended 31 March 2019**

National Infrastructure Commission: Annual report and accounts for the year ended 31 March 2019

Accounts presented to the House of Commons pursuant to Section 6(4) of
the
Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her
Majesty

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Foreword



Welcome to the 2018/19 Annual Report and Accounts for the National Infrastructure Commission (“NIC”). The financial data presented relates to the activities of the NIC during the period April 2018 to March 2019, a year of achievement and transition for the NIC.

The Commission’s aim remains clear. We will address the UK’s historic weaknesses in strategic infrastructure planning through a long-term, evidence-based and objective analysis of need and how this can best be met. We work to form consensus on these issues across government, Parliament, industry and society at large. At the heart of our approach is a cross-cutting National Infrastructure Assessment (“NIA”), to be published once every five years.

During 2018/19, the NIC produced the first ever such Assessment; published on 10 July 2018 this represented the culmination of nearly three years of rigorous research, exploration and consultation. Its recommendations set out an ambitious and affordable agenda for how the UK’s infrastructure needs and priorities should be addressed for the next 10 – 30 years. The government announced at Budget 2018 that it would formally respond by publishing a comprehensive National Infrastructure Strategy – again the first of its kind – before the end of 2019. And in the interim it is already strongly influencing government and regulatory decisions, with its recommendations on full-fibre rollout at the heart of DCMS’ Fixed Telecoms Infrastructure Review, for example, and its proposed water leakage target adopted by Defra and Ofwat.

On 21 December we published the Freight Interim Report which focused on the levers that government can use to deliver a sustainable freight system which is fit for the future. This was followed in April 2019, just outside of the period covered in this report, by the substantive report Better Delivery: the challenge for freight. This looked at the long-term challenges faced by the UK freight sector and the scope to use new technologies and processes to transform how freight moves by road and rail. The report made recommendations to set clear long term targets to decarbonise road and rail freight, alongside measures to reduce the sector’s impacts on congestion and improve how it is taken into account within the planning system.

One of the NIC’s most important tasks is to hold the government to account for the delivery of the recommendations that it has made, and in February 2019 its second Annual Monitoring Report 2019 was published. This sets out the Commission’s views on progress over the past year in response to the six studies published since it was established in 2015. It found that across these reports, 45 recommendations had been made to government, of which 42 had been accepted. Of those 42 recommendations, 10 are now considered to have been fully met – including specific recommendations relating to the introduction of better metrics for mobile connectivity and efforts to deliver a smart and flexible energy system – with good progress being made in a

number of other areas. The report also identified, however, that more limited progress had been made where recommendations spanned departmental boundaries or required a more significant break from current policy frameworks. It highlighted efforts to improve digital connectivity on major road and rail network as an area of particular concern.

In March 2019 a comprehensive Lessons Learnt report was published, reviewing the development of the NIA with the aim of informing and strengthening the Commission's future work programme. This made a series of recommendations which are being taken forward internally by members of the Secretariat.

The NIC continues to grow as an organisation, both in the calibre of its research and publications, and the strength of its internal corporate structures and functions. This growth is due to the contribution of three groups of people. I would first like to acknowledge the huge contribution of my fellow Commissioners. 2018/19 has been a year of consolidation where our Commission membership has stabilised and we have grown in stature and confidence as a body, supported by an unparalleled commitment to the NIC and its aims.

In contrast, the Secretariat of the NIC has gone through considerable change over the past year, with significant staff turnover following the publication of the NIA, but I have been continually impressed by the professionalism and ability of the team, including many excellent new members of staff who have joined this year. They have risen to the challenge of the NIA and delivered analysis and insights that are unmatched in the sector. They continue to develop and embed new methodologies and new ways of working and I am confident in their ability to deliver for the Commission as we look to the future.

Finally, our work cannot be produced in isolation and, to this end, we are incredibly grateful for the time and support of those across industry and Whitehall who continue to take the time to meet with us, talk to us and ensure that we focus on the right issues, and explore the answers to the most pertinent infrastructure questions and challenges of our time.

Sir John Armitt CBE, Chair

16 October 2019

Introduction

This document meets HM Treasury's requirement that the NIC publish an annual report of its activity together with its audited accounts after the end of each financial year. This report is separate from the NIC's annual monitoring report, which analyses government delivery of endorsed recommendations.

The report is set out in three chapters.

1. Performance Report
2. Accountability Report
3. Financial Statements

It is structured to:

- comply with HM Treasury's 'Financial Reporting Manual' (FreM);
- outline our main activities and performance in 2018-19 and a summary of our forward plans for 2019-20; and
- provide financial statements for the period

The Annual Report and Accounts shall be laid before Parliament and made available on the NIC's website: nic.org.uk.

Chapter 1

Performance report

The Performance Report falls in two sections – the overview and the performance analysis.

Overview

The overview gives core organisational information about the National Infrastructure Commission to aid understanding of our purpose, the way we are structured, our key risks and the manner in which we have managed to achieve our objectives during 2018–19. It comprises:

- Chief Executive’s Statement
- Statement of Purpose and Activities
- Performance Summary
- Risk Management Strategy
- Adoption of Going Concern

Performance Analysis

The purpose of this section is to provide a detailed summary of how the NIC has measured its performance, and it includes:

- Achievements 2018–19
- Forward Plans 2019–20

Overview

Chief Executive's Statement



This Annual Report covers the second full year of the National Infrastructure Commission's ("NIC") existence as a standalone organisation – an Executive Agency of HM Treasury, with our operational independence safeguarded by a published Charter and a three year multi year budget agreed covering the period 2018/19 – 2020/21. During the period April 2018 – March 2019 we have delivered an ambitious programme of work, including publishing the UK's first National Infrastructure Assessment ("NIA") and a report on managing the congestion and carbon impacts of freight, as well as securing government commitment to the publication of a comprehensive National Infrastructure Strategy as its response to our work. We have also taken steps to consolidate our operational capacity and capability, in a new dedicated office location in Chancery Lane, to support the delivery of the work programme and the wellbeing of our staff.

Across our work programme, we have sought to provide a uniquely credible, forward-thinking and influential voice in the infrastructure debate:

- The NIA is the first of its kind in the UK. Seeking to reach beyond political and generational divides and to create an objective, sustainable and achievable view of current infrastructure needs and priorities. Since its publication we have regularly been contacted by other national government institutions looking to follow our model and keen to hear how we have achieved what we have.
- We have continued to work closely with leading academic institutions, such as the Oxford-based Infrastructure Transitions Research Consortium, and have enhanced our policy development and quality assurance process through the establishment of a dedicated Policy Board, chaired by the Director of Policy.
- We have consolidated our organisational leadership, with the appointments of our new Director of Policy and Chief Operating Officer during the year. Moreover, after a year of transition during 2017/18, this year we have had a continuous and consistent membership of the Commission itself, which has enhanced the clarity and rigour of its scrutiny, challenge and decision making.
- We have brought fresh thinking and new ideas into the infrastructure debate – for example, through a public innovation competition on how the UK's roads infrastructure might adapt to maximise the benefits from connected and autonomous vehicles.
- We have ensured our work is not just informed by the views of established stakeholders but also by those of the wider public, through extensive qualitative and quantitative social research, as well as completing the groundwork for a deliberative democracy exercise on tackling congestion which will take place in 2019-20.
- We have taken on major new studies, formally commissioned by HM Treasury, looking at the future of utilities regulation and the resilience of the UK's infrastructure systems.
- We have taken a cross-cutting approach, covering both the interdependencies between infrastructure sectors (such as the systemic resilience of infrastructure systems) and thematic issues that span multiple infrastructure sectors, including regulation, resilience and launching a design group to champion the value of effective infrastructure design.

Whilst delivering this ambitious programme of work, the Secretariat has seen a considerable turnover of staff in this period as staff completed their work on the NIA and sought new challenges. This has led to significant changes in our staff composition across the year, from a high of 38 staff in May 2018, to a low of 28 in October 2018. By March 2019, Secretariat staff had grown again to 37, and has continued to grow into 2019/20 as we have returned to a normalised level and begin to plan ahead towards the second NIA, to be delivered in 2023.

Despite the challenges presented by this level of turnover within the organisation, in the Civil Service Staff Survey undertaken in October 2018 the NIC outperformed other Treasury bodies and arms length agencies in how staff felt we managed change, indicating that the Secretariat were able to flexibly manage this transition. Moreover, I was proud to see that our overall engagement score was higher than the Civil Service baseline for high performing units. However, it was disappointing to see that in the detailed survey, performance was weaker than our 2017 result in 8/10 areas. The timing of the survey in October 2018 meant that a level of uncertainty as the organisation transitioned into the next phase of its existence following publication of the NIA, combined with a period of high staff turnover, was evident. In response, we took a range of measures to ensure that our staff are front and centre of our plans to ensure we cater to their needs. Our Operations Board now oversees the work of four staff led workstreams, covering diversity and inclusion; mentoring and career development; learning and development; and culture and values. As we enter 2019/20, we are also enhancing our corporate offering, for example with updated policies and procedures in key areas, and a new bespoke training plan for all staff. In addition, to ensure we continue to respond positively to the views of our staff, we now run regular pulse surveys to understand popular feeling on key issues and use the results of these surveys to drive forward positive change.

We also strengthened our commitment to diversity this year, both within the NIC and within the infrastructure sector at large. April 2018 saw the establishment of the NIC's Young Professionals Panel, to provide a voice for a cadre of professionals often excluded from the policy process. The need for such a body was demonstrated by the more than 500 applicants received for the 16 places available and we now have a gender balanced YPP with representatives from a wide range of disciplines and regions. Since formation the YPP have developed their own projects to support the Commission's work, and also produce and host their own podcast, *Infra[un]structured*. In addition, we have begun using our website to host blogs from organisations representing diverse groups within the infrastructure sector, and we have begun putting in place a programme of work placements for A-level STEM students from ethnic minority backgrounds.

As we move in to 2019/20, we acknowledge our achievements of the past 12 months, however, will not rest on our laurels. We are continuing to deliver world class infrastructure studies, for example with publication of our Regulation Study in autumn 2019 and our Resilience Study in spring 2020. We will also be raising awareness and understanding of our advice and recommendations, including the underpinning evidence base, with government and a wider audience. This is undertaken with a view to becoming a recognised source of expertise, informing the public debate and influencing government policy, such as the forthcoming National Infrastructure Strategy. We will also continue to enhance and embed new ways of working and new organisational structures to ensure that the NIC is a great place to work. I am proud of our achievements over the course of 2018/19, and believe that we have built a strong foundation on which to continue to develop our contribution over the next twelve months.

Philip Graham, Chief Executive

16 October 2019

Statement of Purpose and Activities

Remit

The National Infrastructure Commission's remit is set out in its published Charter. Its main aims as a permanent body are to provide the government with impartial, expert advice on major long-term infrastructure challenges and to hold the government to account for the delivery of its recommendations.

The Commission advises the government on all sectors of economic infrastructure, defined as follows: energy, transport, water and wastewater (drainage and sewerage), waste, flood risk management and digital communications. The Commission also considers the potential interactions between its infrastructure recommendations and housing supply.

Business Model and Objectives

The NIC's corporate and business plan is published on our website. This document describes our statutory remit and structure (as set out in our Framework Document and Charter). The business plan also sets out how we will ensure our governance and operational arrangements are fit for purpose, ensuring that we operate as a responsible, effective and transparent Executive Agency. The plan outlines the three overarching business objectives that guide our work which are to:

- (i) support sustainable economic growth across all regions of the UK;
- (ii) improve competitiveness; and
- (iii) improve quality of life.

The **NIC** commits to achieve these objectives by **delivering** the following products and services:

- (i) a National Infrastructure Assessment once in every Parliament, setting out the NIC's assessment of long-term infrastructure needs with recommendations to the government;
- (ii) specific studies on pressing infrastructure challenges as set by the government, considering the views of the NIC and stakeholders. These studies will include recommendations to the government; and
- (iii) an annual monitoring report, taking stock of the government's progress in areas where it has committed to taking forward the NIC's recommendations.

When **producing** these reports, the **NIC** commits to:

- include a transparent assessment of the impact on costs to businesses, consumers, government, public bodies and other end users of infrastructure that would arise from implementing the NIC's recommendations (i.e. be deliverable within both the defined fiscal and economic remit);
- engage with the public, policy-makers, infrastructure experts and relevant bodies openly and transparently, drawing on a broad range of expertise and helping build consensus; and
- ensure its recommendations are robust, well-evidenced and prioritised according to its remit, give due consideration to a range of proposals and take account of the role of economic regulators in regulating infrastructure providers and the government's legal obligations.

Organisational Structure – Commission and Secretariat

The Commission has a Chair and, at any given time, between four and 12 other non-executive Commissioners, who are appointed for terms of up to five years by the Chancellor, and will serve for a maximum of 10 years. Details of the active Commissioners during this reporting period are

set out in the Corporate Governance Report. The Chancellor appoints the NIC's Commissioners ensuring that the Commission has the right mix of skills and expertise to discharge its functions effectively. The Chancellor may also appoint a Deputy Chair from amongst the Commissioners who can step up to lead the organisation as and when required.

The Commission is supported by a Chief Executive Officer (CEO) and Secretariat staff. The CEO is appointed by the Chancellor with the agreement of the Chair. The CEO is also the organisation's Accounting Officer and discharges these duties with oversight from the NIC's Oversight Board. The CEO's formal reporting line is to the Permanent Secretary of HM Treasury.

NIC staff are a mix of civil servants and expert secondees who are responsible for supporting the Commission to discharge its responsibilities. Staff responsibilities include: conducting analysis, gathering evidence, running consultation exercises, developing and formulating recommendations to the government, stakeholder engagement and representing the NIC at public events.

Performance Summary

During the period, the Commission has:

- Published the first National Infrastructure Assessment in July 2018 and a 'lessons learnt' evaluation of the assessment development process in March 2019.
- Published the NIC's second Annual Monitoring Report in February 2019.
- Published *Preparing for a Drier Future: England's Water Infrastructure Needs* in April 2018, setting out the evidence for our recommendations in our first National Infrastructure Assessment.
- Maintained progress on our agreed study programme: publishing the freight study's interim report in December 2018 and the final report, *Better Delivery: The Challenge for Freight*, in April 2019, shortly after this reporting period.
- Commenced work on a study on economic regulation of utilities and a study on the systemic resilience of infrastructure, including publishing calls for evidence on both in March 2019.



Risk Management Strategy

The main risks faced by the NIC relate to the successful delivery of its core responsibility to produce independent and authoritative analysis of the UK's future infrastructure needs. The operational and financial risks that we face are relatively limited as the NIC is a small organisation

with a focused budget that is primarily spent on staff, commissioning external research and accommodation costs. Our risk management strategy is led by the Senior Management Team (SMT) and is informed by the discussions and deliberations of our Programme Board. A detailed description of our approach is described in the Governance Statement in the Accountability Report.

Adoption of Going Concern

The NIC was permanently established as an Executive Agency of HM Treasury on 24 January 2017. The NIC is funded by Parliament by a funding-through-supply arrangement via HM Treasury's departmental supply estimate. In April 2018 we received a multi-year settlement from HM Treasury spanning three financial years 2018-2021. The settlement amounts to £5.3 million in the first year and £5.7 million in the two subsequent years.

The NIC's Statement of Financial Position at 31 March 2019 shows net liabilities of £58k. This reflects the inclusion of liabilities arising during the accounting period which are met by funding through supply from central government when they fall due. Under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need, but there is no reason to believe that, if required, such funding and parliamentary approval would not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for these financial statements.

Performance Analysis

Between 1 April 2018 and 31 March 2019, the NIC carried out a comprehensive programme of work. Several reports were published, with each of them progressing in line with their projected timeframe and being delivered within deadline. This included the first National Infrastructure Assessment in July 2018, the interim freight study report in December 2018 and the Annual Monitoring Report in February 2019. The delivery of these products on time is a key indicator of our performance. Since publication of our last annual report we can report delivery on all critical milestones set out in our 2018-19 forward plans including:

| | |
|---|---|
| ✓ | Publishing the National Infrastructure Assessment |
| ✓ | Publishing the Freight Study interim report |
| ✓ | Completing a lessons learnt review of the National Infrastructure Assessment process |
| ✓ | Delivering the NIC's second annual monitoring report |
| ✓ | Initiating a study into the regulation of utilities, including launching a call for evidence |
| ✓ | Initiating a study into the resilience of economic infrastructure |
| ✓ | Reviewing and updating the NIC's corporate governance structures including the creation of a new policy board |
| ✓ | Planning and delivering a programme of regional and stakeholder events to raise awareness of the National Infrastructure Assessment recommendations |

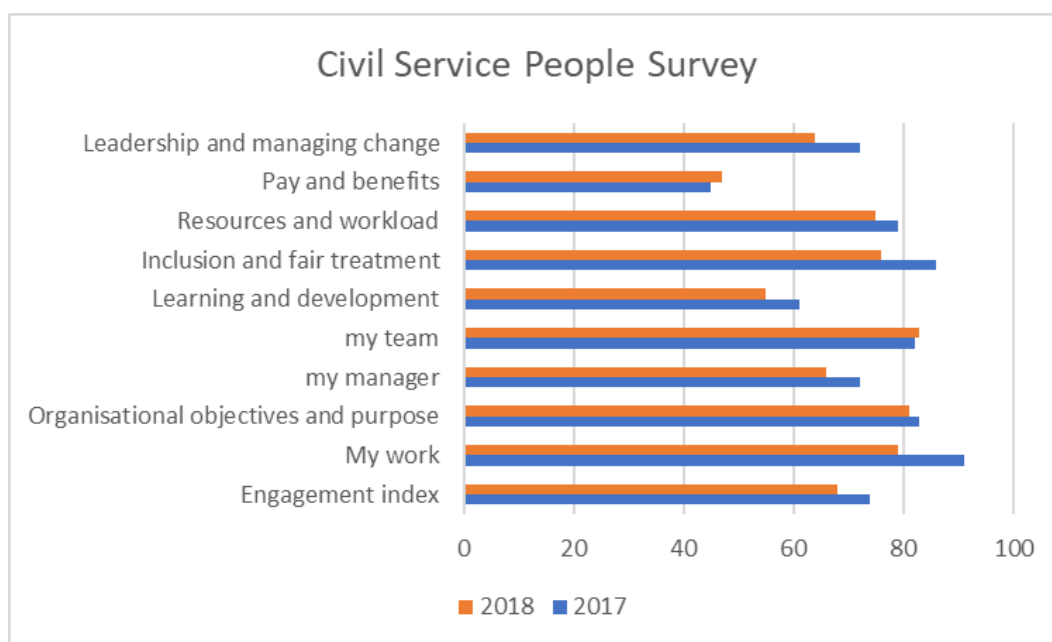
Another key indicator of the NIC's performance is the quality of our work. In 2018-19 we strengthened the formal Quality Assurance policy agreed by the Oversight Board in Autumn 2017. While there is no formal quantitative indicator for the quality of our work, we have undertaken an extensive programme of engagement with industry stakeholders to seek their views on the standard of our outputs. We have been encouraged by the willingness of the infrastructure

sector to feed into the NIC’s work and express support for it. This is evident in the volume of responses we have received to our calls for evidence and consultations, which attracted submissions and contributions from a wide and varied group of interested parties.

The NIC has worked closely with government departments, holding regular meetings during the development stages of our reports and following their publication. We have carried out analysis of the press coverage of our work, as well as monitoring reaction online and across our various social media channels. For example, our Twitter presence has grown from 3,542 followers in 2017/18 to 4,750 in 2018/19, and on LinkedIn we now have 1,700 followers, up from 459 in 2017/18.

The engagement and wellbeing of our staff is a further key indicator of the NIC’s performance. 2018-19 was a period of challenge, in the run-up to the publication of the National Infrastructure Assessment and its aftermath as our resourcing model flexed up and down. This resulted in a large turnover of staff at the time of our participation in the Civil Service People Survey 2018 which inevitably impacted on the feelings of staff. Despite this, the NIC maintained a high level of staff engagement, returning a score of 68%, higher than the average for high performing units across the Civil Service.

Nevertheless, the high staff turnover resulted in reduced satisfaction scores in 8 of the 10 areas compared to 2017 levels. The Senior Management Team have drawn lessons from the 2018 survey scores and identified areas where our survey scores could be improved. In particular, we have run quarterly pulse surveys throughout 2019 to more regularly gauge staff views, and our Operations Board has begun implementing key actions across four different corporate workstreams; diversity and inclusion; mentoring and career development; learning and development; and culture and values. The work undertaken here is overseen by the Chief Operating Officer to ensure we continue to respond positively to staff feedback.



Achievements 2018-19

The NIC’s remit is broad. Within the scope of our remit letters, produced in discussion with HM Treasury, our Charter gives us complete discretion to make independent recommendations and to analyse the UK’s infrastructure challenges taking any approach we deem fit. We are free to shape our own work programme, subject to meeting the core requirements and guidance set out in the Charter and accompanying Framework, and in the Terms of Reference of the studies we undertake.

On 25 April 2018, the Commission published *Preparing for a Drier Future: England's Water Infrastructure Needs*. The report highlighted that an already strained water supply system is likely to come under further pressure as a result of climate change, and set out the measures needed to deliver the appropriate level of resilience in the long term. The report's findings helped form the evidence base for our recommendations for water infrastructure in the National Infrastructure Assessment.

April also saw the launch of the Young Professionals Panel. The 16-strong panel, chosen from over 500 applicants, represent the voice of the next generation of infrastructure professionals. Their forward work programme includes a study into how changing attitudes across generations will alter the demands placed on our infrastructure systems. The YPP has also expanded the NIC's reach to new and different audiences, by producing and presenting their own podcast, *Infra* [un]structured.

On 10 July, the Commission published the UK's first National Infrastructure Assessment, setting out the UK's infrastructure requirements to meet the challenges the country faces between now and 2050. The assessment made recommendations across six sectors: digital, energy, flood risk management, transport, water and waste water and waste. The Commission's recommendations were fully costed within a fiscal remit of 1-1.2% of GDP for public investment in infrastructure per year between now and 2050. In the Budget in October 2018, the Chancellor committed to responding to the report's recommendations in 2019 with a National Infrastructure Strategy.

Following the publication of the National Infrastructure Assessment, the Commission began the work of promoting its recommendations. Commission Chair Sir John Armitt delivered speeches highlighting the recommendations to key stakeholders including at the National Infrastructure Summit on 12 September 2018, the Global Engineering Congress on 24 October 2018, and at the International Project Finance Association on 5 December 2018.

In the period after the publication of the assessment, the Commission also commenced a series of new work programmes, with the Chancellor confirming the terms of reference for a study of the resilience of our economic infrastructure systems in the Budget on 10 October 2018. In March 2019 the study launched a scoping consultation seeking to engage key stakeholders on which resilience issues within our infrastructure systems need to be addressed. In addition, in October 2018 the Chancellor announced a new regulation study, with terms of reference published in February 2019.

In the new year the Commission also commenced work on new studies. On 18 February 2018 the Commission published the terms of reference for a study on the economic regulation of utilities. The study will focus on four key areas: the impact of future change on regulated sectors; whether the existing regulatory model has delivered enough competition and innovation; regulatory consistency; and how government and regulators work together. The study's final report is due to be published in Autumn 2019.

Building on the urban transport funding recommendations in the National Infrastructure Assessment, on 15 December 2018 the Commission launched the *Next Steps for Cities* programme. The programme is a partnership between the Commission and five cities or city regions: the West Yorkshire Combined Authority; Liverpool City Region; Derby; Basildon; and Exeter. Each partner will work with the Commission to develop a local transport plan which will demonstrate the potential for a transformation of urban transport planning if the government accepts the Commission's recommendation to devolve additional funding and powers to city leaders and Metro Mayors.

Work also progressed on ongoing studies, with the publication of the *Future of Freight Interim Report* on 21 December 2018. This was followed by the publication of the final report *Better Delivery: The Challenge for Freight* shortly after the end of this reporting period on 17 April 2019.

This looked at the long-term challenges faced by the UK freight sector and the scope to use new technologies and processes to transform how freight moves by road and rail. The report made recommendations to set clear long term targets to decarbonise road and rail freight, alongside measures to reduce the sector's impacts on congestion and improve how it is taken into account within the planning system.

The Commission continued to hold the government to account, with the publication of its second Annual Monitoring Report on 22 February 2019. At the time of publication the Government had responded to 45 of the Commission's recommendations, of which it accepted 42. The report provided an impartial assessment of the government's progress in implementing those recommendations. For the first time the Commission was able to close 10 recommendations, but the report noted that these were in areas where changes were relatively straightforward to make, either because the recommendations aligned with existing government policy, or where action was delivered by other public bodies such as Ofcom. Areas that are more complicated or controversial to tackle have seen less progress. The Commission will continue to monitor the government's delivery in these areas and provide independent challenge where appropriate.

Finally, in March 2019 the Commission published the findings of the lessons learnt from the process of developing the first National Infrastructure Assessment. As the first exercise of its kind, this report provided invaluable lessons as work begins on laying the foundation for the second assessment in 2023.

Communications and Stakeholder Engagement

Press and Publicity

The areas of focus in 2018/19 have been twofold: launching and publicising the National Infrastructure Assessment, which has provided the majority of media coverage and opportunities for communicating with stakeholders on the back of publication; publishing one interim report (on freight); and launching two ongoing stand-alone studies (on resilience and regulation). The launch of the National Infrastructure Assessment in July 2018 saw a significant increase in our media coverage and social media activity, which the team has sought to build on. In 2019 in particular, there has been an increase in recognition and citation of the Commission's recommendations in the media and by third parties, highlighting a higher level of traction for our recommendations, particularly those which have subsequently been accepted by government. On social media in particular, increased use of video has helped to broaden the routes through which our messages are being shared.

In addition, we secured coverage for the interim freight report and the launches of both the resilience and regulation studies. Previously published studies – in particular those on data, the Cambridge-Milton Keynes-Oxford corridor, and water, continue to be cited regularly by stakeholders in the media and online. In addition, the communications team has enhanced efforts to build the Commission's status as a commentator, through proactively issuing responsive comments to media on stories relevant to our programme.

As a result, the team's efforts have resulted in 145 pieces of coverage in national newspapers, including four authored by NIC Commissioners. There have been 28 contributions to national broadcast interviews by the Chair or Commissioners. Our social media following has grown significantly, from 3,542 followers to 4,750 on Twitter, and from 459 to 1,700 followers on LinkedIn.

| | |
|--------------|---|
| 145 | Pieces of coverage in national newspapers |
| 28 | National broadcast interviews |
| 1,208 | New followers on Twitter |
| 1,241 | Followers on LinkedIn |

Stakeholder Engagement

This has been a pivotal year for the Commission with the launch of the first-ever National Infrastructure Assessment. Having launched it, a greater priority than ever has been placed on stakeholder engagement, seeking to ensure that our recommendations are known, and championed by key stakeholders to create a groundswell of support for them and promote their acceptance by government. Our programme of engagement during this period has been comprehensive, including:

- A launch event for the National Infrastructure Assessment, attended by 105 guests;
- An initial scoping workshop for the resilience study attended by 51 participants; numerous expert roundtables to narrow down the focus of work on the resilience study
- At least 130 stakeholder engagements following the publication of the National Infrastructure Assessment, including: 32 meetings, 96 speeches by Commissioners and the senior management team, 11 regional roundtables with local government and business leaders, 7 Commissioner-led site visits to new or innovative infrastructure projects, participation in 26 third party roundtable events or seminars;
- Regular bilateral meetings with government departments, regulators and representatives from industry.



National Infrastructure Commission Chair, Sir John Armitt, visits the Old Oak and Park Royal redevelopment site, the UK's largest regeneration project.



Members of the National Infrastructure Commission's secretariat visit the Hinkley Point C nuclear power station.



Commissioners mark the launch of the interim National Infrastructure Assessment in Birmingham, alongside the Mayor of London, Sadiq Khan, and four of the newly-elected Metro Mayors.



Forward Plans 2019-20

The NIC is focused on the delivery of the four core business objectives identified for 2019-20. The first on policy and the delivery of a programme of work consistent with our responsibilities under the Charter and remit letter, the second to lay the foundations for the Commission's second National Infrastructure Assessment, the third to develop and implement revised governance and operational arrangements, and the fourth to develop and implement corporate and human resources policies which facilitate the attraction and retention of a skilled and motivated workforce.

Policy

| Objectives | Status (as at the date of publication) |
|---|--|
| Completing the freight study and publication of interim and final reports | ✓ |
| Publishing the resilience study scoping report | ✓ |
| Delivering NIC's third annual monitoring report | On track |
| Publishing the regulation study | On track |
| Establishing a National Infrastructure Design Group | ✓ |
| Analysing public and private partnerships to better evaluate the costs and benefits of different procurement approaches | ✓ |
| Working with city authorities on the development of effective urban transport strategies | On track |
| Exploring new approaches to public engagement, focussing initially on road congestion. | On track |

Governance and Operations

| Objectives | Status (as at the date of publication) |
|---|--|
| Publishing accurate Annual Reports and Accounts in line with nationally mandated timeframes and the Government Financial Reporting Manual | ✓ |
| Ensuring adequate financial reporting and accounting arrangements are in place in line with HM Treasury's Managing Public Money | ✓ |
| Developing a Data Hub as a repository for infrastructure metrics and data by Q4 2019/20 | On track |
| Agreeing a new multi-year budget with HM Treasury through the Spending Review process during 2019/20 | On track |

Human Resources

| Objectives | Status (as at the date of publication) |
|---|--|
| Further strengthening our high-quality learning and development offer, through the promotion of our Infrastructure School and utilisation of Civil Service Learning | ✓ |
| Developing and implementing a diversity programme to ensure the Commission's access to the best talent, by ensuring all vacancies are | On track |

| | |
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| filled through open competition, and through utilisation of a wide breadth of advertising | |
| Reviewing the effectiveness of the performance appraisal system | On track |
| Continually reviewing our staff structures against our work programme to address resource pressures | On track |

Operations, Accommodation, Finance and Human Resources

Our financial management and oversight arrangements are established in the Framework Document drawn up by HM Treasury and agreed by the NIC. Our sponsor department is HM Treasury and we are funded via a delegated budget. The NIC's Framework Document commits HM Treasury to provision of a multi-year budget. We received a delegation letter which set out a three-year settlement in April 2018.

The Chief Executive Officer of the NIC is designated as the Accounting Officer responsible for the effective management of public funds. HM Treasury Ministers have given the NIC's Chief Executive Officer delegated authority to approve external appointments and procurements up to £250k.

The NIC moved into its new offices in Finlaison House on July 12 2018 in the days immediately following the publishing of the first National Infrastructure Assessment. The NIC's site renovation and ongoing service contracts for security and facilities management at Finlaison House are provided by Interserve who are contracted by the Government Actuary's Department.

We continue to receive our back-office services including IT, HR and Financial management from HM Treasury. As a small organisation seeking to secure value for money we will retain this relationship next financial year in accordance with the current Memorandum of Understanding, under which HM Treasury provides the IT, human resources, finance, accounting, procurement and payroll services we need. We keep these arrangements continually under review to ensure that they meet the needs of the organisation and represent value for money based on HM Treasury's performance.

Philip Graham, Chief Executive

16 October 2019

Chapter 2

Accountability Report

The Accountability Report contains:

- the Corporate Governance Report, which includes an assessment of the NIC's delivery against its responsibilities set out in the Framework agreement;
- the Statement of Accounting Officer's Responsibility;
- the Accounting Officer's Governance Statement;
- the Remuneration and Staff Report, which details the pay, pension arrangements and staffing structure of the office; and
- the Parliamentary Accountability and Audit Report, which details the audit arrangements and the relevant parliamentary accountability disclosures.

Corporate Governance Report

The Commission – Background

All appointments to the Commission are made by the Chancellor of the Exchequer. In making appointments, the Chancellor has responsibility for ensuring that the Commission has the right mix of skills and expertise to discharge its functions effectively.

The Commissioners are appointed to provide expert, impartial advice to the government on infrastructure, work with the Chair and each other to shape and develop the National Infrastructure Assessment and generate consensus between government, industry and others.

One or more Commissioners are appointed to act as ‘lead Commissioners’ for each of the NIC’s projects and studies – providing guidance and challenge to the Secretariat teams undertaking the work, managing relationships with key stakeholders and agreeing project plans and draft recommendations for discussion with the Commission.

During the period the Commission had a Chair and 7 other Commissioners. These were as follows:

- Sir John Armitt CBE (Chair)
- Dame Kate Barker CBE
- Professor Sir Tim Besley CBE;
- Professor David Fisk CB
- Andy Green
- Professor Sadie Morgan
- Julia Prescott
- Bridget Rosewell CBE

Table 1: Commissioners’ Appointment dates and Remuneration terms

| Name | Role | Fee (per annum) | Time commitment | Appointment Date |
|------------------------------|--------------|-----------------|------------------|--|
| Sir John Armitt CBE | Chair | £85,200 | 3 days per week | 1 October 2017/18 April 2017/18 January 2018 |
| Dame Kate Barker CBE | Commissioner | £20,000 | 2 days per month | 18 April 2017 |
| Professor Sir Tim Besley CBE | Commissioner | £20,000 | 2 days per month | 30 October 2015/18 April 2017 |
| Professor David Fisk CB | Commissioner | £20,000 | 2 days per month | 22 May 2017 |
| Andy Green | Commissioner | £20,000 | 2 days per month | 18 April 2017 |
| Professor Sadie Morgan | Commissioner | £20,000 | 2 days per month | 30 October 2015/18 April 2017 |
| Julia Prescott | Commissioner | £20,000 | 2 days per month | 18 April 2017 |
| Bridget Rosewell CBE | Commissioner | £20,000 | 2 days per month | 30 October 2015/18 April 2017 |

Commissioner Biographies (1 April 2018 – 31 March 2019)



Sir John Armitt CBE – Chair

Sir John Armitt is Chair of National Express Group and City & Guilds. He sits on the boards of Berkley Group and Expo 2020. Sir John was President of the Institution of Civil Engineers from 2015-16. He was awarded the CBE in 1996 for his contribution to the rail industry and a knighthood in 2012 for services to engineering and construction.

Commissioners



Dame Kate Barker DBE

Dame Kate Barker sits on the boards of Taylor Wimpey plc and Man Group plc. She is also Chair of Trustees for the British Coal Staff Superannuation Scheme. She has previously served as an external member of the Bank of England’s Monetary Policy Committee (2001-10).



Professor Sir Tim Besley CBE

Sir Tim Besley is School Professor of Economics and Political Science and W. Arthur Lewis Professor of Development Economics at the LSE. He has previously served as an external member of the Bank of England Monetary Policy Committee (2006-09).



Professor David Fisk CB

Professor David Fisk is Emeritus Professor at the Centre for Systems Engineering and Innovation at Imperial College London. He has served as Chief Scientist across several Government departments including Environment and Transport, and as a member of the Gas and Electricity Markets Authority.



Andy Green

Andy Green holds several Chairman, non-executive director and advisory roles, linked by his passion for how technology transforms business and people's daily lives. This includes chairing IG Group, a global leader in online trading and Digital Catapult, an initiative to help grow the UK digital economy.



Professor Sadie Morgan

Professor Sadie Morgan is a founding director of the Stirling Prize winning architecture practice dRMM. She is also Chair of the Independent Design Panel for HS2, and a Mayor's design advocate for the Greater London Authority.



Julia Prescott

Julia Prescott is co-founder and Chief Strategy Officer of Meridiam, and sits on the Executive Committee of Meridiam SAS. She has been involved in long term infrastructure development and investment in the UK, Europe, North America and Africa.



Bridget Rosewell CBE

Bridget Rosewell is a director, policy maker and economist. She has served as Chief Economic Adviser to the Greater London Authority (2002-2012) and worked extensively on infrastructure business cases. She is a director of Network Rail and the Chair of Atom Bank.

Register of Interests

The register of interests for each of our Commissioners is maintained online. Details can be found at the following web link:

<https://www.nic.org.uk/wp-content/uploads/Commissioner-and-Senior-Management-Team-Register-of-interests-July-2018.pdf>

| Commissioner Attendance | Commission Meetings Meetings attended out of those eligible |
|-------------------------------------|---|
| Sir John Armitt CBE | 12 of 13 |
| Dame Kate Barker DBE | 11 of 13 |
| Professor Sir Tim Besley CBE | 12 of 13 |
| Professor David Fisk CB | 11 of 13 |
| Andy Green | 11 of 13 |
| Professor Sadie Morgan | 10 of 13 |
| Julia Prescott | 12 of 13 |
| Bridget Rosewell OBE | 9 of 13 |

Oversight Board

The Oversight Board was established in July 2017 to supervise the Commission’s financial management and administrative functions. It ensures the Commission has the staff and support it needs to enable it to provide high quality advice to the government and to provide assurance that effective internal control and risk management systems are in place.

The Oversight Board consists of the Chair of the Commission, a representative of the Treasury, appropriate executive members including the Chief Executive, and non-executive members who may either be Commissioners nominated by the Chair, or external members appointed by the Chair. The current members of the Oversight Board are:

- Sir John Armitt (Chair)
- Philip Graham (CEO – Executive Member)
- Sasha Morgan (COO to April 2019 – Executive Member)
- Charlotte Goodrich (COO from May 2019 – Executive Member)
- John Staples (Treasury Representative)
- Michael Brodie (Non-Executive Member)
- Debjani Ghosh (Non-Executive Member)
- Kate Ivers (Treasury Finance Representative)

| Member attendance | Oversight Board Meetings Meetings attended out of those eligible |
|--------------------------|---|
| Sir John Armitt CBE | 2 of 2 |
| Philip Graham | 2 of 2 |
| Sasha Morgan | 2 of 2 |
| Michael Brodie | 2 of 2 |
| Debjani Ghosh | 2 of 2 |
| Kate Ivers | 1 of 1 |
| John Staples | 2 of 2 |

In 2019-20 we will strengthen the operational resilience of the Oversight Board by looking to appoint two new non-executive directors.

The Oversight Board's functions relate to the corporate management of the Commission and it has no role in agreeing or reviewing its policy reports or recommendations. During the year the Oversight Board satisfied itself as to the quality of the data of performance reporting via assurance on both internal audit external auditors and the assurance drawn from their respective work programmes; reliance on the operations of HM Treasury who provide the performance reporting to the NIC; and from the operation of routine controls and processes to ensure that data presented is complete and accurate.

In 208/19 the NIC's internal audit service was provided by the Government Internal Audit Agency. GIAA undertook a full audit plan and gave an overall Head of Internal Audit Opinion of "moderate" assurance. This is the second of GIAA's four ratings (substantial; moderate; limited; and unsatisfactory).

Over the last year I can confirm that the board has delivered against all its core functions (See table below. Delivery of Oversight Board Responsibilities:

| Objectives: | Status: |
|---|-----------------------------|
| Ensuring the NIC has the resources required to discharge its functions | ✓ |
| Ensuring that any statutory or administrative requirements for the use of public funds are complied with, and that the NIC acts in line with the principle of providing value for money | ✓ |
| Operating within the limits of any delegated authority agreed with the Treasury, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Oversight Board takes into account administrative or financial guidance issued by the Treasury | ✓ |
| Appraising the performance of the NIC's Chief Executive and providing feedback to the Treasury | ✓ (Undertaken by the Chair) |

| | |
|--|---------|
| Overseeing the remuneration of the Commission members (as determined by the Treasury), and HR policies for NIC staff, including pay consistent with the framework document. | ✓ |
| Ensuring that it receives and reviews regular financial information concerning the management of the NIC, and processes are in place to facilitate the sharing of any concerns about the activities of the NIC | ✓ |
| Approving the NIC's annual report and accounts | ✓ |
| Assuring itself of the effectiveness of the internal control and risk management systems of the NIC, by establishing an Audit and Risk Assurance Committee function | ✓ |
| Ensuring that the NIC demonstrates high standards of corporate governance at all times | Ongoing |

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) of the Oversight Board was established on 3 October 2017 to support the board in discharging its responsibilities in relation to issues of risk, control and governance, and of associated assurances.

The independent members of the Audit and Risk Assurance Committee are:

- Michael Brodie (Chair)
- Debjani Ghosh (Deputy Chair)

Director's Report

Assessment

I am confident that the NIC has throughout the period of these accounts performed its main duties in line with the objectives set out within its framework to progress:

- development of the National Infrastructure Assessment;
- its current studies on pressing infrastructure challenges; and
- gathering of intelligence to inform the annual monitoring report.

Within the reporting period I note that the executive:

- published the National Infrastructure Assessment.
- maintained progress on our agreed study programme publishing the interim report for our study into the freight industry covering freight-related congestion and decarbonisation.
- published its second Annual Monitoring Report and;
- published the NIC's second Annual Report and Accounts

These outputs have been published on our website and have been robust, authoritative and objective.

My interactions and those of my fellow Commissioners with the NIC's secretariat have enabled me to remain confident that the NIC has been free to use its own discretion in taking judgements and reaching analytical conclusions. The structures and processes for working with HM Treasury and government have operated effectively, and the NIC has been transparent about these interactions. I am clear from my conversations with the NIC's Chief Executive and Senior

Management Team (SMT) that they have come under no pressure from Ministers, special advisers or officials to change the conclusions of their analysis.

In 2018-19 the organisation has put in place a range of governance mechanisms. Building on the established Audit and Risk Assurance Committee and the Oversight Board, in October 2018 the Commission further strengthened its internal governance by instituting a new Policy Board structure. The board acts as a peer-review mechanism in the policy development process, overseeing projects at three stages: scoping; problem definition; and emerging recommendations. This mechanism has proved effective and the board met seven times in the reporting period.

From conversations with the CEO and participation in the Oversight Board I am content that NIC's key operational risks were and continue to be managed effectively.

The existing budget has been sufficient to enable the recruitment of additional resources when necessary. I was pleased to note that at the start of the reporting period in April 2018 HM Treasury were able to provide a multi-year budget in line with our Framework agreement. The amount provides sufficient resources to deliver our key obligations over the upcoming period.

The outcomes of the staff survey suggest that despite the high turnover of staff in the reporting period, the organisation was able to retain a staff engagement rate above the average for high performing departments within the wider civil service. In the coming year I am pleased to note that the Senior Management Team aim to further the organisation's learning and development offer, enhance staff welfare and strengthen the organisation's links with broader Whitehall for those staff that are interested in pursuing a career in public service when their time with the secretariat comes to an end. It will remain important that the secretariat can maintain the right level and mix of skills and technical experience among the staff.

Considering these developments, I am content that the NIC's internal management structures and working practices led by the Chief Executive are effective and that the NIC's governance is compliant with the requirements laid out by HM Treasury in our framework agreement. I have also given regard to the HM Treasury's guidance "Corporate governance in central government departments" – as suggested the NIC has adopted the practices set out in the Code and guidance commensurate with its size, status and legal framework.

My overall assessment is that the NIC has responded effectively to its Charter and has delivered its remit.

Sir John Armitt CBE, Chair

16 October 2019

The Statement of Accounting Officer's Responsibility

The Principal Accounting Officer (PAO) of HM Treasury has designated the Chief Executive of the NIC as Accounting Officer for the NIC. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the NIC's assets, are set out in Managing Public Money published by HM Treasury.

Under the terms of the NIC's Charter, HM Treasury has directed the National Infrastructure Commission to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the NIC and of its income and expenditure, Statement of Financial Position and cash flows for the financial year. In preparing the accounts I have complied with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosures requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis;
- sign the accounts and ensure that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by HM Treasury;
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the judgements required for determining that it is fair, balanced and understandable.

As far as I am aware there is no relevant audit information of which the NIC's auditors are unaware and as Accounting Officer I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that the NIC's auditors are aware of that information.

I confirm that the Annual Report and Accounts gives a fair, balanced and understandable view of the NIC's activities for the year ended 31 March 2019 and its financial position as at 31 March 2019.

I confirm also that I am personally responsible for this Annual Report and Accounts and the judgments required for determining that it is fair, balanced and understandable.

My view is informed by the work of the NIC's internal and external auditors, and the staff within the NIC who have responsibility for the development and maintenance of internal processes.

Philip Graham, Chief Executive

16 October 2019

Accounting Officer's Governance Statement

The following statement summarises the NIC's approach to corporate governance, risk management and oversight of any local responsibilities.

As Accounting Officer, I am personally responsible for:

- safeguarding the public funds for which I have charge;
- ensuring propriety, regularity, value for money and feasibility in the handling of those public funds;
- the day-to-day operations and management of the NIC;
- ensuring that the NIC is run based on the standards, in terms of governance, decision-making and financial management set out in Managing Public Money; and
- giving evidence (normally with the PAO) when summoned before the Public Accounts Committee on the NIC's stewardship of public funds.

I have responsibility for reviewing the effectiveness of our governance arrangements and risk management. During the year ending 31 March 2019 HMT have advised me on the adequacy of our internal control and risk management framework. The NIC has an Oversight Board and Audit and Risk Assurance Committee (ARAC) which were put in place in accordance with the terms of our Framework agreement.

The Oversight Board oversees the operational management of the NIC and includes members of the Commission and independent non-executive members and representatives from HM Treasury. This board met twice during the period of these accounts.

The ARAC is responsible on behalf of the Oversight Board, for advising me as Accounting Officer on the governance of the internal and external audit processes. The ARAC has also provided assurance on the quality of the NIC's financial statements.

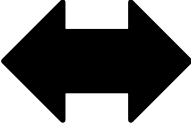
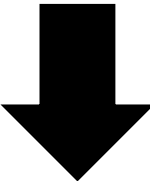
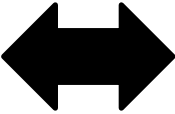
The ARAC met five times during the period of the 2018–19 accounts with representatives from the National Audit Office (NAO), Internal Audit (Government Internal Audit Agency) and HM Treasury also attending.

I have overall responsibility for the management of the NIC and lead the Senior Management Team (SMT) which includes the Chief Economist, the Director of Policy and the Chief Operating Officer. We are responsible for implementing strategic decisions taken by the Commission and the Oversight Board, for making any necessary and appropriate decisions relating to the day-to-day performance of the NIC's business, and for the effective management of NIC staff. The SMT meets fortnightly to discuss emerging issues and risks and overarching strategic direction. The Secretariat also has three boards which meet monthly to set the direction of the organisation: Operations Board; Programme Board; and Policy Board.

Philip Graham, Chief Executive

16 October 2019

Risk Management

| Risk | Risk trend at 31 March 2019 | Proposed mitigation activity as at 31 March 2019 |
|---|---|--|
| <p>Investment in our People - We fail to get the right people into the right jobs and then fail to retain them for a sufficient length of time, or they fail to impart their knowledge to the wider Secretariat.</p> |  | <ul style="list-style-type: none"> • We propose to ensure that there are effective progression routes for internal staff to encourage them to stay and grow within the organisation. • We will put in place a high class learning and development offer for staff in post. • We will implement routine exit interviews to develop a greater qualitative understanding of employee experiences. |
| <p>Influence - We fail to have the desired effect on stakeholders by being unable to convince stakeholders that our recommendations are credible and implementable, by failing to adapt to changing stakeholder priorities such as a change of government, and by lacking the authority to appropriately sanction delivery bodies for unsatisfactory uptake.</p> |  | <ul style="list-style-type: none"> • We will continue to develop and enhance our communication and stakeholder engagement activities to raise the profile of the Commission amongst decision makers and those who influence them, particularly over the period between now and publication of the National Infrastructure Strategy. • We will strengthen relationships with departments in order that NIA recommendations are embedded within departmental action plans. |
| <p>Quality - The NIC's research, findings and recommendations fails to meet world class quality standards.</p> |  | <ul style="list-style-type: none"> • We will refresh our QA policy and our analytical and technical panels to ensure we are getting the best out of external scrutiny. • We will review use of consultancy to ensure we are only procuring where we can reasonably expect to secure a high-quality product. • We will develop a data hub to ensure consistency in use of data sources. |

The most critical risk the NIC faced in 2018/19 related to our workforce strategy, i.e. the ability to get the right people into the right roles and then having the environment and incentives in place that make them want to stay with the organisation. The second critical risk that we faced regards the issue of our sphere of influence, whether we are able to convince the relevant parts of industry and government of the veracity of our recommendations to improve the long-term future of UK infrastructure. The third most significant risk is to ensure the quality of our recommendations remains world class in order to maintain confidence in our reputation for impartial and accurate advice.

The operational and financial risks that the NIC faces are relatively less significant as the NIC is a small organisation with a budget that is primarily spent on staff, accommodation and the costs associated with commissioning new research.

Our risk management strategy involves all members of staff in the NIC, the Senior Management Team and our Board. As we are a small organisation, our approach to risk management is naturally very closely integrated with both the longer-term strategic planning and the day-to-day management of the organisation. All members of staff and all members of the secretariat are involved in the identification of risks. There is clear ownership and responsibilities for managing risks.

Each NIC project team maintains a project tracker documenting milestones and key deliverables. Given the varying scales and scope of NIC projects a flexible approach has been taken to allow project teams to put in place what they deem to be appropriate project and risk controls, rather than fully standardised systems. The teams hold weekly internal meetings where these trackers are updated.

The NIC's Programme Board meets monthly and it is chaired by the Chief Economist and is attended by me and other members of the Senior Management Team, and the team leaders of each study team and the major workstreams. The agenda focuses on reviewing project plans for each of these and the meeting also reviews the issues and risks flagged by the team leaders giving the opportunity to escalate critical issues for the attention of either SMT or the Commission itself. The Programme Board keeps a rolling review of the Commission's forward plan identifying issues that need escalation, or upon which comment and decision from the Commissioners is needed.

The Commission is solely responsible for the delivery of the NIC's core policy responsibilities whilst the Oversight Board is responsible for its operational delivery and governance arrangements. The non-executive members of the Oversight Board were nominated jointly by myself as Accounting Officer and the Chair.

The quality of the evidence base underpinning the NIC's recommendations is a key consideration for the organisation. The NIC's objectives require tackling significant analytical and forecasting challenges. To do this effectively the Commission has created a Policy Board to peer-review ongoing research to ensure that the analysis supporting its decisions is credible, fit-for-purpose and minimises the risk of errors.

I and the Chief Economist have ensured that the Secretariat has effective processes in place to assure the quality of all our work from our evidence gathering process, the research which we commission, and the reports we publish to ensure that they are consistent and of high quality. We are also mindful that the quality assurance

activities undertaken should be proportionate to the risks and the complexity of the analysis involved.¹

The following processes assist the Secretariat in the delivery of high quality analysis:

- Two expert advisory panels one analytical and one technical, were established in October 2016.² These panels provide advice on cross-cutting issues that arise in the Commission's work. This improves the quality of the Commission's work, by providing challenge and perspectives from leading thinkers as the work develops. The expert advisory panels are consulted on key issues that arise in the Commission's work and invited to attend seminars and roundtables arranged by the Commission.
- Beyond this we regularly use expert round tables to test ideas with leading experts in relevant fields, and engage widely with industry and academic stakeholders in the development of our thinking.

Given that much of the policy and analytical tools and expertise sit within government departments, the Commission works closely with departments, arm's length bodies and regulators. As the Commission's work develops it regularly shares information and analysis with government departments to seek their views and to check factual accuracy, with the final decision always resting with our Commissioners.

The Secretariat maintains a list of its business-critical models³ and ensures appropriate quality assurance of the inputs, methodology and outputs. This means that, for any model-dependent work (whether it be internal or externally commissioned research), we ensure that the models:

- have a clearly identified Senior Responsible Owner;
- have clear documentation setting out the model's scope and specification; the purpose, limitations and risks; and the quality assurance undertaken;
- validate modelling results by sensitivity analysis of selected parameters and by comparing outputs from different models;
- are subject to both internal peer review and external peer review; and
- are fact checked and verified by third party evidence ahead of publication.

Staffing and Capacity

To deliver our objectives, it is important that NIC staff have appropriate skills and experience. Given our remit it is essential that we draw on a broad range of technical skills and experience from industry. It is equally critical that we can draw on relevant external analysis, while ensuring the judgements we take are solely those of the Commission. The potential loss of experienced staff members, an increase in the demands placed on our staff without corresponding increases in resources, and the inability to recruit staff due to an inability to match salaries in the wider market are risks that the NIC's SMT is focused on mitigating

¹ The Commission's approach to quality assurance is consistent with best practice principles as laid out in HM Treasury (2013), [Review of quality assurance of Government analytical models: final report](#) and HM Treasury (2015), [The Aqua Book: guidance on producing quality analysis for government](#)

² See here for the announcement: <https://www.gov.uk/government/news/the-uks-first-ever-national-infrastructure-assessment-enters-its-next-phase>.

³ Business criticality is determined by the extent to which the model drives key financial and funding decisions, the extent to which it is essential to the achievement of the business plan, and the extent to which error could lead to serious financial, legal or reputational damage.

Engagement and Advocacy

Our work requires close and effective working with experts in several government departments. Our role here is outlined and regulated by the requirements of our Charter, and is supplemented by Memorandum of Understandings (MOU) in certain specific cases where relevant.

These Memoranda set out roles and responsibilities, and processes for coordination of analytical activities and for information sharing. The NIC's Director of Policy meets with senior officials from the key departments to ensure effective working. The completed MOUs will provide future recourse for the CEO to raise issues with the relevant departmental Permanent Secretaries.

It is central to our objectives that our analysis and judgements are produced independently from Ministers and that they are perceived to be so by the public. The Charter and MoUs provide a framework within which we can work with government officials while retaining our independence. We are aware that there are risks around the perception of independence and will consider our strategies for managing this effectively. We have detailed the approach taken in each aspect of our NIA forecasting process in briefing and driver papers available on our website. To date we have come under no pressure from Ministers, advisers or officials to change any of our conclusions.

Operational and Financial Risks

Our budget is primarily spent on staff, external research and accommodation costs. The financial risks we face are therefore relatively low. Nevertheless, as Accounting Officer I am responsible for safeguarding the public funds for which I have charge, and I have ensured we have processes in place to do so that are proportionate to our size and the level of financial risks we face.

We worked closely with the Director of Finance for HM Treasury throughout the reporting period of this annual report to ensure that the organisation was financially robust and that appropriate scrutiny of staffing and procurement decisions took place. Our Oversight Board and Audit and Risk Assurance Committee continued to hold the organisation to account, with membership under review to ensure that it continues to provide the NIC with appropriate external scrutiny.

Our financial management services are provided by HM Treasury, which reviews its controls, processes and systems regularly. The Director of Finance of HM Treasury has provided assurance on the quality of its current processes including the quality of its delivery of the accounts production. I am content, based on these assurances, that the design and implementation of internal controls including those to prevent and detect fraud were adequate. The Head of HM Treasury Group's Internal Audit has provided an annual opinion on the adequacy and effectiveness of HM Treasury Group's framework of governance, risk management and control from which I have taken assurance that the services I receive through the NIC's service agreement with HM Treasury are produced within a sound control environment.

I am also content that the details and figures disclosed within the remuneration and staff report (provided below) have been accurately identified and sourced from the information held within HM Treasury's HR and Finance records covering the accounting period and that the NIC's remuneration policy has been operated in accordance with HM Treasury's governance framework during the reporting period. I am also content that there were no personal data related incidents during the period.

Governance Summary

My review of the effectiveness of the system of internal control is informed by the work of the executive managers within HM Treasury who have responsibility for the development and maintenance of the internal control framework within which the NIC has operated.

Based on this work I consider the NIC's governance arrangements to be sufficiently effective.

Philip Graham, Chief Executive

16 October 2019

Remuneration and Staff Report

Remuneration Report⁴

The table below reports the remuneration of each Commissioner which is set by HM Treasury on appointment (audited). Current Commissioners' letters of appointment, which include detailed remuneration arrangements can be provided on request.

| | 2018-19 £,000 | 2017-18 £,000 |
|---|--------------------|-------------------|
| Sir John Armit CBE Chair of the Commission (from 19/01/18) & Deputy Chair of the Commission (to 18/01/18)* | 90-95 (140-145) | 55-60* (85-90) |
| Lord Andrew Adonis Chair of the Commission (to 31/12/17) | - (-) | 65-70 (85-90) |
| Dame Kate Barker DBE Commissioner (from 18/04/17) | 20-25 (20-25) | 15-20 (20-25) |
| Professor Sir Tim Besley CBE Commissioner | 20-25 (20-25) | 20-25 (20-25) |
| Professor David Fisk CB Commissioner (from 22/05/17) | 20-25 (20-25) | 15-20 (20-25) |
| Andrew Green Commissioner (from 18/04/17) | 20-25 (20-25) | 15-20 (20-25) |
| Professor Sadie Morgan Commissioner | 20-25 (20-25) | 20-25 (20-25) |
| Julia Prescott Commissioner (from 18/04/17) | 20-25 (20-25) | 15-20 (20-25) |
| Bridget Rosewell CBE Commissioner | 20-25 (20-25) | 20-25 (20-25) |
| Dr Demis Hassabis CBE Commissioner (to 31/12/17) | - (-) | 15-20 (20-25) |

All figures in this table are audited. Bracketed figures are annual equivalents.

*Sir John Armit's remuneration in 2017-18 covered both roles (Deputy Chair and then Chair).

As stipulated in the letters of appointment, Commissioners are not entitled to any bonus payments. 'Salary' includes gross salary only. The fees disclosed have been subject to external audit.

The remuneration shown is the gross fees paid to Commissioners, these are subject to the deduction of appropriate taxes via the PAYE system.

No benefits in kind have been paid to Commissioners.

As part of his contractual terms, Lord Adonis received a payment equivalent to 20 per cent of his annual fee into his personal pension scheme, which amounted to £13,048 during 2017-18. The NIC does not pay any pension contributions on behalf of any of the other members of the Commission.

It is to be noted that the non-commissioner members of the Oversight Board and Audit and Risk Assurance Committee are currently unremunerated.

⁴ Certain disclosures within the remuneration report have been audited as per the FReM 5.3.4.

Senior management – single total figure of remuneration⁵ (audited)

| £,000 | Salary (FYE) | Bonus | Pension Benefits ⁶ | 2018-19 Total |
|---|------------------|-------|-------------------------------|----------------|
| Philip Graham Chief Executive | 90-95 | 0-5 | 44 | 135-140 |
| James Richardson Chief Economist | 100-105 | 10-15 | 35 | 145-150 |
| Adam Cooper Director of Policy and Engagements (to 09/09/18) | 35-40 (85-90) | - | 22 | 55-60 |
| Sasha Morgan Chief Operating Officer | 45-50 (60-65) | 0-5 | 28 | 75-80 |
| Katherine Black Director of Policy (from 09/09/18) | 60-65 (65-70) | 0-5 | 25 | 90-95 |

| £,000 | Salary (FYE) | Bonuses/ allowances | Pension Benefits ⁷ | 2017-18 Total |
|---|------------------|---------------------|-------------------------------|----------------|
| Philip Graham Chief Executive | 85-90 | 10-15 | 27 | 125-130 |
| James Richardson Chief Economist | 100-105 | - | 30 | 130-135 |
| Adam Cooper Director of Policy and Engagements | 85-90 | - | 32 | 120-125 |
| Sasha Morgan Chief Operating Officer | 35-40 (50-55) | 0-5 | 15 | 50-55 |

Pay Multiples (audited)

The pay multiple is the relationship between the remuneration of the highest paid director/employee in the organisation (in this case the Chief Economist) and the median remuneration of the organisation's workforce. Remuneration includes salary, non-consolidated performance related pay and benefits in kind, but excludes severance payments, employer pension contributions and cash-equivalent transfer value of pensions.

The banded pay (full year equivalent) of the highest paid director in the accounting period was £110-115,000 (2017-18: £100-105,000). This was 2.2 (2017-18: 2.0) times the

⁵ Salary, full year equivalents (FYE) and totals are presented in £5,000 bands. FYE is shown in brackets.

⁶ The value of pension benefits accrued during the accounting period is calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decreases due to a transfer of pension rights. Figures are restated for retrospective updates and reported before tax.

⁷ Figures have been restated where the Civil Service Pension scheme have made retrospective updates to the data.

median remuneration of the workforce, which was £50,303 (2017-18: £50,951). The increase from 2017-18 is caused by an increase in the highest paid remuneration and a decrease in the median.

Remuneration of NIC employees ranged from £23,000-£113,000 (2017-18: £22,220-£101,000); no employees received pay in excess of the highest paid senior manager/Commissioner.

Senior management – Pension benefits⁸ (audited)

| | | | | | | 2018-19 |
|-------|--|--|--|------------------|------------------------------|-----------------------|
| £,000 | | Accrued annual pension at pension age as at 31/3/19 and related lump sum | Real increase in annual pension at pension age | CETV* at 31/3/19 | CETV at 31/3/18 ⁹ | Real increase in CETV |
| | Philip Graham Chief Executive | 25-30 | 2.5-5 | 408 | 328 | 22 |
| | James Richardson Chief Economist | 30-35 plus lump sum of 60-65 | 0-2.5 | 571 | 490 | 18 |
| | Adam Cooper Director of Policy and Engagement | 20-25 | 0-2.5 | 316 | 298 | 11 |
| | Sasha Morgan Chief Operating Officer | 10-15 | 0-2.5 | 100 | 72 | 10 |
| | Katherine Black Director of Policy and Engagement | 5-10 | 0-2.5 | 68 | 47 | 7 |

* a definition of Cash Equivalent Transfer Value (CETV) is provided below

Remuneration Policy

The NIC's 41 employees are civil servants and their pay arrangements are governed by the policy framework set out by the Cabinet Office and HM Treasury and the NIC specific Pay Remit agreed by the NIC's Oversight Board. Total staff costs (including those for secondees and agency staff) for NIC in the year were £2,835k (2017-18: £2,967k).

The pay of senior civil servants (SCS) including those working for the NIC is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. From time to time, the Review Body advises the Prime Minister on the pay,

⁸ This table relates to pension benefits in the Civil Service Pension Scheme.

⁹ Figures have been restated where the Civil Service Pension Scheme have made retrospective updates to the data.

pensions and allowances of ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In making its recommendations, the Review Body considers:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional and local variations in labour markets and their effects on the recruitment and retention of staff;
- government policies for improving public services, including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the government's departmental expenditure limits; and
- the government's inflation target, wider economic considerations, and the affordability of its recommendations.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced, the Civil Servants and Others Pension Scheme (alpha), which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher).

From that date, all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS), which has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under all the above schemes are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt either for a defined benefit arrangement or a partnership pension account.

The following transition arrangements were put in place for the introduction of alpha:

- members within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015;
- members who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch to alpha between 1 June 2015 and 1 February 2022; and
- all members who switch to alpha have their existing PCSPS benefits 'banked'. Any earlier final salary benefits members hold will be based on their final salary upon leaving alpha.

Further details of the schemes:

- employee contributions are salary-related, and range from 4.6 to 8.05 per cent of pensionable earnings for members of classic (and those who joined

alpha from classic), premium, classic plus, nuvos, and all other members of alpha;

- benefits for classic accrue at a rate of 1/80th of final pensionable earnings for each year of service; for premium, the rate is 1/60th. Classic plus is essentially a hybrid, with benefits calculated broadly as per classic in respect of service before 1 October 2002, and as per premium since that date. Benefits in nuvos are based on pensionable earnings during the period of scheme membership, with 2.3 per cent of member's pensionable earnings credited to their earned pension account at the end of each scheme year (31 March), and the accrued pension uprated in line with Pensions Increase legislation, alpha is similar to nuvos, except the accrual rate is 2.32 per cent; and
- a lump sum equivalent to three years' pension is payable on retirement for members of classic. For premium, there is no automatic lump sum. In all cases members may give up (commute) their pension for a lump sum up to the limits set by the Finance Act 2004.

Cash Equivalent Transfer Value (CETV)

CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure benefits in another scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies (or, for ministers, their current appointment as minister).

CETVs are calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by senior management. It is worked out using common market valuation factors for the start and end of the period.

Compensation for Loss of Office

There were no payments made for the loss of office during the accounting period.

Payments to past directors

There were no payments made to past directors in the accounting period.

Staff Report

At 31 March 2019, the NIC had 41 members of staff. Staff comprise permanent employees, temporary employees on loan from other Civil Service departments and secondees from other public- or private-sector organisations. Whilst terms and conditions differ dependent on point of origin, all staff members report to and are accountable to Philip Graham as Chief Executive.

As at 31 March 2019 the gender balance of NIC's 38 employees (i.e. not including the three secondees from other organisations) was as set out in the table below.

Employee Gender Balance

| | Male | Female | Total |
|----------------------|-----------|-----------|-----------|
| Directors | 2 | 2 | 4 |
| Other employees | 19 | 15 | 34 |
| All Employees | 21 | 17 | 38 |

Sickness Absence

During the reporting period the average number of working days lost due to sickness absence was 2.70 days per full-time equivalent (FTE).

Staff policies

The NIC is committed to ensuring equality of opportunity for all disabled staff. Applicants for positions at the NIC are invited to notify the organisation if special arrangements are required to enable them to participate in the recruitment process.

The NIC uses a confidential occupational health service through which staff may request reasonable adjustments to support them in the workplace in accordance with the NIC's duty under the Equality Act 2010.

Analysis of Staff Costs and Numbers (audited)

The following disclosures on staff costs (including pension costs), average number of persons employed and exit packages have been audited. Total costs of £2,835k comprised £2,567k related to permanent employees and £268k related to secondees from other public and private-sector institutions.

Staff Costs

| 2018-19 £,000 | Employees | Other staff | Total |
|-----------------------|--------------|-------------|--------------|
| Salaries and wages | 1,988 | 234 | 2,222 |
| Social Security costs | 231 | 17 | 248 |
| Staff pension costs | 348 | 17 | 365 |
| Total costs | 2,567 | 268 | 2,835 |

| 2017-18 £,000 | Employees | Other staff | Total |
|-----------------------|--------------|-------------|--------------|
| Salaries and wages | 1,849 | 434 | 2,283 |
| Social Security costs | 208 | 44 | 252 |
| Staff pension costs | 352 | 80 | 432 |
| Total costs | 2,409 | 558 | 2,967 |

Average Number of Persons Employed

The average number of full-time equivalent persons employed during the accounting period was as follows:

| | Employees | Other staff | 2018-19 Total | 2017-18 Total |
|-------------------------------|-------------|-------------|------------------|------------------|
| Total persons employed | 31.4 | 2.7 | 34.1 | 32.9 |

Staff Pension Costs

The Civil Servants and Others Pension Scheme (alpha) was launched as a new pension scheme for civil servants from 1 April 2015. Details on the transition arrangements between alpha and Principal Civil Service Pension Scheme (PCSPS) are outlined from pages 37-38. The PCSPS scheme actuary valued the scheme as at 31 March 2012.

Details can be found in the 2016–17 Resource Accounts of the Cabinet Office: Civil superannuation.¹⁰

For the accounting period employers' contributions of £348k were payable to the PCSPS at one of four rates in the range 20.0 to 24.5 per cent of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Exit Packages

The NIC did not incur any costs for exit packages during the reporting period.

Off-payroll Transactions

There were no off-payroll transactions during the reporting period.

¹⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/587315/58353_HC366_Accessible.pdf

Parliamentary Accountability and Audit Report

The accounts of the NIC are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000. The audit fee charged was £25,000. The auditors received no fees for non-audit services. The auditors have been provided with all relevant audit information necessary to complete their audit and the Accounting Officer has taken all of the necessary steps to ensure that the auditors are aware of any relevant information.

All expenditure was applied to the purpose intended by Parliament (audited).

No fees or charges were charged by the NIC (audited).

The NIC has not incurred any losses or special payments in excess of £300k during the reporting period to 31st March 2019 (audited).

The NIC has no remote contingent liabilities. NIC's total expenditure during the accounting period was £4,938k (2017-18: £5,347k) (audited).

Philip Graham, Chief Executive

16 October 2019

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

Opinion on financial statements

I certify that I have audited the financial statements of the National Infrastructure Commission for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the National Infrastructure Commission's affairs as at 31 March 2019 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the National Infrastructure Commission in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Infrastructure Commission's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Infrastructure Commission's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the

financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
Signed: 17 October 2019

National Audit Office
157-197 Buckingham Palace Road
Victoria
London, SW1W 9SP

Chapter 3

Financial Statements

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2019

| | Note | 2018-19 £000 | 2017-18 £000 |
|-------------------|------|-----------------|-----------------|
| Expenditure | | | |
| Staff costs | 2 | 2,835 | 2,967 |
| Other expenditure | 3 | 2,103 | 2,380 |
| | | <hr/> 4,938 | 5,347 |
| Net expenditure | | 4,938 | 5,347 |

There were no items of income or other comprehensive income.

The notes on pages 48 to 53 form part of these accounts.

Statement of Financial Position

As at 31 March 2019

| | | 2018-19 | 2017-18 |
|--|------|--------------|--------------|
| | Note | £000 | £000 |
| Non-Current assets | | | |
| Property, plant and equipment | 4 | 261 | - |
| Total non-current assets | | <u>261</u> | <u>-</u> |
| Current assets | | | |
| Cash and cash equivalents | 6 | 315 | 159 |
| Trade and other receivables | 7 | 58 | 154 |
| Total current assets | | <u>373</u> | <u>313</u> |
| Total assets | | <u>634</u> | <u>313</u> |
| Current liabilities | | | |
| Payables due within one year | 8 | (597) | (997) |
| Total current liabilities | | <u>(597)</u> | <u>(997)</u> |
| Total assets less current liabilities | | <u>37</u> | <u>(684)</u> |
| Non-current liabilities | | | |
| Provisions | 10 | (95) | - |
| Total non-current liabilities | | <u>(95)</u> | <u>-</u> |
| Total assets less total liabilities | | <u>(58)</u> | <u>(684)</u> |
| Taxpayers' equity | | | |
| General fund | | (58) | (684) |
| Total taxpayers' equity | | <u>(58)</u> | <u>(684)</u> |

The notes on pages 48 to 53 form part of these accounts.

The financial statements were approved by the Board on 15 October 2019.

Philip Graham – Chief Executive

16 October 2019

Statement of Cash Flows

for the year ended 31 March 2019

| | | 2018-19 | 2017-18 |
|--|------|----------------|----------------|
| | Note | £000 | £000 |
| Cash flows from operating activities | | | |
| Net operating cost | | (4,938) | (5,347) |
| Changes in working capital other than cash | | (304) | 220 |
| Movement in provisions | | 58 | - |
| Depreciation | | 51 | - |
| Notional expenditure | | 25 | 28 |
| Net cash outflow from operating activities | | (5,108) | (5,099) |
| Cash flows from investing activities | | | |
| Purchase of fixed assets | | (275) | - |
| Net cash outflow from investing activities | | (275) | - |
| Cash flows from financing activities | | | |
| Funding from HM Treasury | | 5,539 | 5,258 |
| Net financing | | 5,539 | 5,258 |
| Net increase in cash and cash equivalents in the period | 6 | 156 | 159 |
| Cash and cash equivalents at the beginning of the period | | 159 | - |
| Cash and cash equivalents at the end of the period | 6 | 315 | 159 |

The notes on pages 48 to 53 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2019

| | General Reserve |
|--|------------------------|
| | £000 |
| Balance at 1 April 2017 | (623) |
| Net operating expenditure for the period | (5,347) |
| Net parliamentary funding | 5,258 |
| Notional expenditure | 28 |
| Balance at 31 March 2018 | (684) |
| Net operating expenditure for the period | (4,938) |
| Net parliamentary funding | 5,539 |
| Notional expenditure | 25 |
| Balance at 31 March 2019 | (58) |

The notes on pages 48 to 53 form part of these accounts.

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies

Pursuant to the Framework Document¹¹ between the National Infrastructure Commission (NIC) and HM Treasury, these financial statements have been prepared in accordance with the 2018–19 Government Financial Reporting Manual (FReM).¹² The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the National Infrastructure Commission (NIC) has been selected. The particular policies adopted by the NIC are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting Convention

These accounts have been prepared on an accruals basis.

1.2 Basis of Preparation

The NIC was established as an Executive Agency on 24 January 2017. Its functions transferred from HM Treasury on this date along with net liabilities of £822k. These liabilities along with the costs incurred during successive accounting periods will be met by a funding-through-supply arrangement with HM Treasury. It has accordingly been considered appropriate to adopt a going-concern basis for these financial statements.

The NIC adopted IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from contracts with customers’ with effect from 1 April 2018. Adoption of these standards has not had any material impact on the NIC and no adjustments have been recognised at the transition date. There have been no other changes to the accounting policies previously applied by the NIC in preparing its Annual Report and Accounts for the year ended 31 March 2019.

1.3 Significant judgements and estimates

Management have made judgements around the value of rectification costs associated with contractual obligations to restore NIC’s current office premises at the end of the lease. Some of these expected costs have been capitalised as part of leasehold improvements. The total provision value has been informed by professional judgement and experience, including the use of valuation experts to provide an estimated cost.

1.4 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 April 2018. The NIC does not intend to early-adopt any of the following standards. The expected financial impact of adopting these standards is summarised below.

¹¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/585374/NIC_framework_document_web.pdf ¹²

<https://www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018>

IFRS 16 Leases

The NIC has reviewed the effects that the new accounting standard IFRS16 – Leases, will have on its financial statements.

IFRS 16 will be effective for reporting periods beginning on or after 1 April 2020 for the public sector and will impact the recognition of leases in the NIC’s financial statements. The NIC does not intend to early adopt IFRS 16. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

On transition, the NIC will recognise, measure, present and disclose the right-of-use asset under leases previously classified as operating leases, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease, recognised in the statement of financial position immediately before the date of initial application. As at the end of the financial year, the NIC’s operating lease obligations were £1,125m for accommodation and office services, and £754m for IT services, which will give rise to right-of-use assets. Work is still in progress to quantify the impact that IFRS 16 will have on the NIC’s accounts.

IFRS 17 Insurance contracts

IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on, or after, 1 January 2021 (subject to EU endorsement). IFRS 17 is not expected to have a material impact on the NIC financial statements as NIC does not enter into insurance contracts.

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the NIC financial statements.

1.5 Financing

During the reporting period receipts and payments relating to NIC transactions passed through both the NIC’s own bank account and a HM Treasury bank account. The NIC is financed via a funding-through-supply arrangement, where the regular method of financing is for HM Treasury to transfer funds as requested to the NIC’s bank account. This ensures that the NIC has direct management of its funding requirements and enables the organisation to settle liabilities as they fall due itself. These transfers from HM Treasury, whether to settle directly in certain circumstances on the NIC’s behalf or more regularly to pre-fund the NIC’s bank account, are recorded as funding through supply within the primary statements.

1.6 Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Service and Others Pension Scheme (CSOPS), which are described in the Remuneration and Staff Report, cover past and present employees that are participants in the schemes. The defined benefit schemes within the PCSPS and CSOPS are contributory, and the NIC’s expenses are treated similarly to defined contributions since scheme liabilities are held by central government. The NIC recognises the expected costs of the scheme on a systematic and rational basis over the period during which it benefits from employees’ service by payments of amounts calculated on an accruing basis.

1.7 Employee Benefits

The NIC has accrued for the cost of the outstanding employee paid holiday entitlement. It is estimated based on pay and Employers' National Insurance Contributions.

1.8 VAT

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets.

1.9 Property, Plant and Equipment

Property, plant and equipment consists of capitalised leasehold improvements, which are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised as a provision. Items of property, plant and equipment with a value below £5k are not capitalised and are expensed in the year of purchase.

Depreciation is provided on property, plant and equipment so as to write off their carrying value over their expected useful economic lives. For leasehold improvements, depreciation is provided on a straight-line basis over the lease term.

1.10 Cash

Cash and cash equivalents comprise cash at bank.

1.11 Financial Instruments

Trade receivables and payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.12 Leases

Operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the lease.

1.13 Provisions

Provisions are carried in respect of certain known or forecast future expenditure. Provisions are recognised when there is a present obligation arising from past events, it is probably that a transfer of economic benefits will be required, and a reliable estimate can be made. In calculating provisions, future payments may be subject to discount rates depending on the expected timing of cash flows. Provisions are calculated using the best available information, but the actual future outcomes of items provided for may differ from expectations.

2. Staff Costs

| | 2018-19 | 2017-18 |
|-----------------------|--------------|--------------|
| | £000 | £000 |
| Wages and salaries | 2,222 | 2,283 |
| Social Security costs | 248 | 252 |
| Other pension costs | 365 | 432 |
| Total costs | 2,835 | 2,967 |

Staff costs are comprised of permanent staff, secondees and agency staff from other public and private-sector institutions. Further details of staff costs and numbers are disclosed in the Remuneration and Staff Report (see pages 33 to 40).

3. Other Expenditure

| | 2018-19 £000 | 2017-18 £000 (restated) |
|--|-----------------|-------------------------------|
| Accommodation costs | 291 | 185 |
| Printing and office services | 149 | 129 |
| IT costs | 170 | 190 |
| Contracted-out services | 868 | 1,528 |
| External auditor's remuneration | 25 | 28 |
| Staff Support and staff-related costs, including training and travel | 61 | 48 |
| Professional and office services | 56 | 10 |
| Other goods and services | 374 | 262 |
| Depreciation | 51 | - |
| Movement in provisions | 58 | - |
| Total | 2,103 | 2,380 |

The 2018-19 expenditure figures have in some cases been recategorized to better reflect the nature of the underlying activities. Accordingly the 2017-18 expenditure figures have been restated for consistency with 2018-19 but were not incorreced stated in the 2017-18 accounts. Total expenditure for the year is unchanged.

Contracted-out services were predominantly research costs. Other goods and services were primarily business rates and service charges.

No payments were made to the external auditors in respect of non-audit services.

4. Property, Plant and Equipment

| | 2018-19 £000 | 2017-18 £000 |
|---------------------------------------|-----------------|-----------------|
| Leasehold improvements | | |
| Cost | | |
| Opening balance | - | - |
| Additions | 312 | - |
| Total cost | 312 | - |
| Accumulated depreciation | | |
| Opening balance | - | - |
| Depreciation | (51) | - |
| Total accumulated depreciation | (51) | - |
| Net book value | 261 | - |

Of the leasehold improvement additions made in the year, £37k represents the estimate of related future reinstatement costs and has been recognised as a provision.

5. Financial Instruments

As the cash requirements of the NIC are met by funding through supply, provided by HM Treasury, financial instruments play a more limited role in creating and managing risk than would otherwise be the case for a non-public sector body. Most financial instruments relate to contracts to buy non-financial items in line with the NIC's

expected purchase and usage requirements and the NIC is therefore exposed to little credit, liquidity or market risk.

6. Cash and Cash Equivalents

| | 2018-19 £000 | 2017-18 £000 |
|--------------------------------------|-----------------|-----------------|
| Balance at 1 April | 159 | - |
| Net change in cash balances – inflow | 156 | 159 |
| Balance at 31 March | 315 | 159 |

All cash balances are held with the Government Banking Service.

7. Trade and Other Receivables

| | 2018-19 £000 | 2017-18 £000 |
|-----------------------------|-----------------|-----------------|
| Trade and other receivables | 12 | 7 |
| VAT receivable | 46 | 147 |
| Balance at 31 March | 58 | 154 |

8. Payables and Other Current Liabilities

| | 2018-19 £000 | 2017-18 £000 |
|--|-----------------|-----------------|
| Amounts falling due within one year | | |
| Trade and other payables | 70 | 49 |
| Accruals | 453 | 843 |
| Taxation and social security | 74 | 105 |
| Balance at 31 March | 597 | 997 |

9. Commitments and Leases

The NIC has not entered into any capital commitments or non-cancellable contracts.

The NIC leases its current office space from the Government Actuary's Department by means of an agreement set out within a Memorandum of Terms of Occupation (MOTO). This covers both the provision of accommodation and office services. The agreement runs for a period of 5 years from February 2018 until June 2023.

As at 31 March 2019 commitments under the current MOTO for the remaining lease period comprise:

| | 2018-19 £000 | 2017-18 £000 |
|-------------------------------|-----------------|-----------------|
| Accommodation | | |
| Within one year | 256 | 289 |
| Between one and five years | 869 | 1,061 |
| Later than five years | - | 64 |
| IT and office services | | |
| Within one year | 178 | 178 |
| Between one and five years | 576 | 713 |
| Later than five years | - | 41 |

Additional IT services are provided by HM Treasury who charge the NIC for the recovery of costs incurred in relation to providing IT service under the Memorandum of Understanding (MOU) between the two parties.

10. Provisions

| | 2018-19 £000 | 2017-18 £000 |
|----------------------------|-----------------|-----------------|
| Balance at 1 April | - | - |
| Provided during the year | 95 | - |
| Released during the year | - | - |
| Utilised during the year | - | - |
| Balance at 31 March | 95 | - |
| Within one year | - | - |
| Between one and five years | 95 | - |
| Later than five years | - | - |

Under the MOTO with the Government Actuary's Department the NIC has an obligation to reinstate its office space to the satisfaction of the head lease terms. During the year alterations were made to the NIC's office space and accordingly a provision was recognised for future reinstatement costs. The NIC has also recognised a provision in respect of reinstatement of common areas. These provisions have not been discounted as the time value of money is not significant.

11. Related Party Transactions

The sponsoring department of the NIC is HM Treasury. HM Treasury is regarded as a related party with which the NIC has had various material transactions during the year, including the provision of HR and financial services to the NIC.

During the year the NIC had a MOTO with the Government Actuary's Department. The lease relates to provision of office accommodation and associated management services to be provided for the NIC.

Other government departments also enter into arrangements to provide staff on secondment or loan to the NIC.

Board member remuneration is disclosed in the Remuneration Report. No Board member, key manager or other related party has undertaken any other material transactions on preferential terms with the NIC or other entities within the HM Treasury group.

12. Events after the Reporting Period

There were no adjusting or non-adjusting post balance sheet events after the reporting period.

13. Date Authorised for Issue

The financial statements were authorised for issue on the date of the Comptroller and Auditor General's signature.

There were no changes to the accounts between the date when the Accounting Officer signed the accounts and the date they were authorised for issue.

HM Treasury contacts

This document can be downloaded from
www.gov.uk

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