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

27 October 2021

Sir John Armitt
Chair, National Infrastructure Commission
Finlaison House
15-17 Furnival Street
London
EC4A 1AB

Dear Sir John,

REMIT LETTER FOR THE NATIONAL INFRASTRUCTURE COMMISSION

It has been six years since the National Infrastructure Commission (NIC) was established. I would like to thank you personally for the expert advice you have provided since you were appointed Commissioner in 2015, and particularly for the leadership role you have played since you became Chair of the Commission in 2018.

The NIC remains at the heart of the government's infrastructure policy. As you know, the government is committed to delivering high-quality infrastructure which boosts productivity across all regions of the UK. Investment in infrastructure helps to unlock economic potential in individual regions and ensure that growth and opportunities are distributed across the country.

The NIC's ground-breaking 2018 National Infrastructure Assessment (NIA) of the country's infrastructure needs, and specific studies such as those on rail, towns, freight, and resilience, have played an essential role in the government's infrastructure policy. The analysis the NIC has provided has supported the government's ambition to deliver a radical improvement in the quality of the UK's infrastructure to help level up the country, put the UK on the path to net zero emissions by 2050 and deliver for all parts of the UK.

The scale of this ambition was set out last year in the first National Infrastructure Strategy (NIS), which brought together the government's long-term infrastructure priorities with the short-term imperative to build back fairer, faster, and greener following the COVID-19 pandemic. This is reflected in the spending commitments made in the last eighteen months and restated in today's Spending Review. This investment is complemented by the UK Infrastructure Bank (UKIB). Progress on enabling the Bank's operational status is well advanced, which will catalyse private investment and help us to realise the ambitions set out in the NIS. These plans and achievements reflect the key role that the NIC has played in helping the government to respond to the infrastructure challenges that we face as a country. The NIC has an important role in supporting government to effectively deliver against these ambitious infrastructure plans by advising on appropriate prioritisation.

The Charter for the NIC states that the government will provide the Commission with clear guidance by issuing a public remit letter, and that this will include a binding fiscal remit to ensure that the Commission's recommendations would be affordable. This letter sets out the remit and matters to which the Commission should have regard in its work. This remit applies equally to the next NIA and future specific studies. This letter, and the revised Charter and Framework Document also published today, reflect the outcomes of HM Treasury's review of the NIC's role, responsibilities, and fiscal remit, as committed to in the NIS. I would like to thank you, the Commissioners, and your officials for your support in these reviews.

The quality of the evidence base underpinning the NIC's recommendations will remain a key consideration for the government, and the Commission should ensure that its recommendations are clearly prioritised. In developing its recommendations, the NIC should have regard to the trade-offs between maintaining and maximising the potential of existing infrastructure assets, and the opportunities arising from new infrastructure projects – in both cases, the NIC's judgements on the value for money case for each approach will be crucial. The NIC should ensure its recommendations account for how to maximise economic returns. The NIC should also consider the impact future technological change could have on infrastructure needs and solutions and have regard to resilience factors that are connected to infrastructure policy. The Commission must continue to not re-open decision making processes where programmes and work have been decided (or are due to be decided immediately after a NIC report is published), or re-open closed price control settlements in regulated utilities.

Objectives

The NIC's objectives to (i) support sustainable economic growth across all regions of the UK, (ii) improve competitiveness, and (iii) improve quality of life, remain unchanged. Reflecting the government's climate ambitions, I am now adding a fourth objective to the NIC's remit: (iv) to support climate resilience and the transition to net zero carbon emissions by 2050. The NIC is already required to consider the potential interactions between its infrastructure recommendations and housing supply. I also now require the NIC to consider potential interactions between its infrastructure recommendations, the government's legal target to halt biodiversity loss by 2030 and implementing biodiversity net gain.

Fiscal remit

While the need for sustained investment to match the government's infrastructure objectives is clear, the government remains committed to fiscal sustainability, noting the enormous challenges posed by COVID-19 and the scale of the direct economic interventions that have been required since March 2020. The fiscal remit set out today strikes an appropriate balance in light of this.

The NIC must be able to demonstrate that its recommendations for economic infrastructure are consistent with, and set out how they can be accommodated within, gross public investment in economic infrastructure of between 1.1% and 1.3% of GDP in each year between 2025 and 2055.

This remit applies to both the NIA and future specific studies. The NIC should clearly prioritise their recommendations and explain which they consider are most critical in addressing the country's long-term infrastructure needs. This should include outlining which of their recommendations at the upper bound of the remit would be prioritised at the lower bound.

The government will review the remit again no later than the conclusion of the Spending Review period, to ensure it continues to reflect spending plans.

Further details on the fiscal remit, taking account of the importance of sustaining infrastructure spending over time without fluctuations which might put delivery at risk, are laid out in the Annex.

<u>Economic Remit</u>

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

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

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

I look forward to the NIC's continued contribution to the government's ambitious agenda on infrastructure.

Best wishes,

RISHI SUNAK

ANNEX: Details on Fiscal Remit

Further details on the fiscal remit are as follows:

- The remit covers all sectors of economic infrastructure, defined as follows: energy, transport, water and wastewater (drainage and sewerage), waste, flood risk management and digital communications.
- Gross public investment includes: the relevant departmental capital spending on infrastructure; capital expenditure by Network Rail (Great British Railways from 2023); and infrastructure investment through Local Authority Self-Financed Expenditure (LASFE), the UK Infrastructure Bank (UKIB) and Transport for London (TfL). Under LASFE, UKIB and TfL, infrastructure investment can occur independently from central government, and the Commission should recognise this when making their recommendations.
- The Commission's remit is in line with UK government competence, respecting devolved responsibilities for infrastructure. As such, the fiscal remit does not include spending where infrastructure investment decisions rest with the devolved administrations in Scotland, Wales and Northern Ireland.
- The fiscal remit is a planning guideline, and not a commitment by government. Future investment decisions will ultimately be made by the Chancellor of the Exchequer through fiscal event processes.
- The Commission's recommendations must be clearly costed. Estimates should recognise the uncertainties of costing significant, long-term infrastructure projects and policies (such as the possibility of cost overruns and the general risk of optimism bias). While recognising the Commission's operational independence, the government is happy to work with the Commission to ensure that cost estimates are as accurate and realistic as possible.
- Recommendations must abide by budgets set during the latest Spending Review – which at present is the Spending Review 2021, where departmental plans are set until 2024-25. If the Commission recommends additional spending (for example, in a future specific study) they should explain how it could be accommodated in these settlements.
- The Commission must be clear which of its recommendations at the upper bound of the remit it would prioritise at the lower bound of the remit.
- The Commission must ensure that its recommendations are made with the intention of not varying by more than 0.1% of GDP year-on-year.
- HM Treasury will provide the Commission with further detail on what costs have been committed, including beyond 2024-25 (for instance long-term projects).
- To convert the remit into nominal terms, the Commission should use the latest Office for Budget Responsibility's medium-term nominal GDP forecasts.
- The government will review the remit again no later than the conclusion of the Spending Review period, to ensure it continues to reflect government spending plans.