



**Infrastructure in the 21st Century:
from the Olympics to High Speed Rail and beyond**

**The Lord Deighton, KBE
Commercial Secretary, HM Treasury**

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Given at:

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**Cambridge University
Land Society**



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The Cambridge University Land Society (CULS) through its Cambridge Whitehall Group forum, is launching this important series of lectures in recognition of the part its members play in contributing to public policy issues. Society members are mainly alumni of the Department of Land Economy, but also from many other academic disciplines in the University of Cambridge. Many play important, often distinguished, roles in many aspects of public policy that are covered by the work of the Department.

The Cambridge Whitehall Group is a member of CULS and is a high level influential policy discussion group of well-connected Cambridge alumni, who are mainly members of CULS. In addition to its member events it also runs this distinguished series of policy lectures of which this lecture by Lord Deighton is the second in the series.

The lectures will discuss major aspects of public policy that in one way or another touch on the disciplines of policy, economics and the application of land use.

The lectures are published as occasional papers.



THE SOCIETY AND THE WHITEHALL LECTURES - MESSAGE FROM THE VICE CHANCELLOR OF THE UNIVERSITY OF CAMBRIDGE

The Cambridge University Land Society is an exemplary society at Cambridge – for its longevity and for its level of engagement with a wide range of sectors and contemporary issues.



Over the last 50 years, the Society has built a membership base of nearly 1,000 alumni, spanning those who graduated from Cambridge in the 1950's who now hold senior positions in their fields, to current students and recent graduates of the Department of Land Economy.

The number of disciplines and interests represented in the Society's membership – as well as the broad range of issues discussed at business and social events held by the Society each year – highlight what Cambridge does so well. We recognised that the challenges we face today are increasingly complex, multi-faceted and global in nature, and that they cannot be overcome with the expertise of just one area. This is why it is so valuable that the Land Society continues to bring together fresh and diverse perspectives from those studying and working in economics, land, planning, governance, finance, environmental resources and beyond on critical public and private issues.

The Whitehall Lecture series represents a good opportunity to take this debate forward – and to build the Land Society's critical mass of expertise – and I wish it every success.

Professor Sir Leszek Borysiewicz, Vice-Chancellor, University of Cambridge.



WHITEHALL LECTURE SERIES,
DOUGLAS BLAUSTEN, CHAIRMAN,
CAMBRIDGE WHITEHALL GROUP

Douglas Blausten is Senior Partner of Cyril Leonard, Property Consultants, where he is responsible for Corporate Strategic Real Estate Consultancy. He is Vice Chairman of NHS Property Services Limited and Chairman of its Audit and Investment Committee, a Centre Fellow of the Cambridge Centre of Climate Change Mitigation Research and a member of the Cambridge Land Economy Advisory Board. He has held a number of executive and non-executive directorships in public and private companies and is a Past President of the Cambridge University Land Society.



THE WHITEHALL LECTURER
LORD DEIGHTON, KBE, COMMERCIAL SECRETARY,
HM TREASURY



Lord Deighton became Commercial Secretary to the Treasury in January 2013, having successfully completed his role as Chief Executive of the London Organising Committee of the Olympic and Paralympic Games (LOCOG).

Prior to joining London 2012, Lord Deighton was the Chief Operating Officer of Goldman Sachs in Europe, and a member of its European Management Committee.

Lord Deighton studied Economics at Trinity College Cambridge, and he is also a Board member of England Rugby 2015, the Organising Committee for Rugby World Cup 2015.

The Whitehall series of lectures, which was inaugurated in March 2014, deals with the main issues confronting Government in the public sector and is planned as an occasional series with the lectures published by the Society.



INTRODUCTION BY DOUGLAS BLAUSTEN, CHAIRMAN

In 2013 Danny Alexander, Chief Financial Secretary to the Treasury announced the National Infrastructure Plan and appointed Lord Deighton to implement the Plan. It was published in 2014. There is a multitude of major reports and advices on Infrastructure policy published by pressure groups and organisations – Policy Exchange, The Armitt Report, Linklaters European Infrastructure report, the CBI, the ICE, London Chambers of Commerce and many more. Those of us who are involved in the infrastructure sector also know that the UK has a really poor record of coordinating, prioritising and delivering infrastructure investments across the economy. Is the National Infrastructure Plan making the difference this time round, perhaps for the first time since the Public Works Loan Board was set up in 1793?

Some may argue that the biggest impediments to a proper infrastructure policy in this country are our ‘Democratic and Political Systems’.

For Democracy, what would be a 5–10 year project add 10–20 years of public consultation and commissioned reports. The CBI recently undertook a study which indicates that the public on the whole do not associate themselves easily if at all with the benefits of major infrastructure spend.

For the Political system – well we saw the frantic rush just before the 2010 election to do so much work on Crossrail that a change of government with an unfavourable policy would have been stuck with the project. HS2 now? Some might maintain that this is no way to conduct a true national policy.



We are also faced in this sector with constant government policy changes and inconsistencies which make investment so fraught with cost difficulties - Off shore wind; equipping our rail system; what to invest in energy supply? Which party; Who wins a General election committing expenditure that will not bear fruit for a generation and so shows no benefit when canvassing?

Linklaters have shown in their recent report on European infrastructure that there is over a \$1 trillion chasing European infrastructure investment and we all know in the property investment industry that money is actually 'no object'.

The stunning success of the Olympics shows what we are capable of – HS1 and Kings Cross suddenly became a reality as a result – but would not have otherwise!

One of the criticisms levied at the National Infrastructure Plan is that it is to a large extent window dressing – putting together a large number of already planned individual projects into a new 'Plan'. In presenting this important lecture the Minister charged with implementing a £466 billion pipeline in 2,500 projects counters this view and sets out the case for a new concerted approach to infrastructure planning and implementation which aims to place the UK on an equal footing with the best of infrastructure policies in Europe.



LECTURE BY LORD DEIGHTON AT THE SECOND INAUGURAL LECTURE 'INFRASTRUCTURE IN THE 21ST CENTURY: FROM THE OLYMPICS TO HIGH SPEED RAIL AND BEYOND'

As you might know, after a career spent in finance, I helped London deliver the 2012 Olympic and Paralympic Games. It was a huge logistical task. We were working to hard deadlines; we needed to secure political consensus; and managing a project involving hundreds of thousands of people coming together had both its charms and its challenges. Britain proved it can deliver. We now want to build on that success.

My job in Government is to inject private sector experience into the public sector; to prioritise infrastructure investment; and to put it centre stage in our plan for economic recovery.

THE OPPORTUNITY

Infrastructure investment is a key driver of national prosperity. Having the right transport, communications and energy systems allows people and businesses to increase their own productivity and the country's overall rate of growth. Infrastructure products also create significant demand stimulus during planning, construction and maintenance, generating skilled jobs and opportunities up and down the country. And infrastructure can help rebalance the economy by unlocking economic potential in the regions. This is not just through creating regional job opportunities; it's about giving regions the infrastructure they need to help them prosper.

Michael Heseltine and Jim O'Neill have done huge amounts of work in this area. Michael Heseltine's review on infrastructure, "No Stone Unturned", set out how we can unleash the potential of local economies. And Jim O'Neill,





chair of the City Growth Commission, has been thinking the unthinkable about how we can drive growth in our northern cities by boosting connectivity.

If the northern economy grows in line with the rest of the UK over the next 18 years (2013-2030), then, compared to previous 18 years, that would be worth an additional £44bn in real terms to the economy of the North.

The UK has a great infrastructure tradition. The great 19th century civil engineers –Telford, Brunel, Stephenson, Bazalgette – built infrastructure which is still in use today. They thought about what the country would need fifty years down the line, and further ahead still. So my ambition is to put in place a new Victorian Age – one where growth and productivity is fuelled by our investment in infrastructure.

THE CHALLENGE

The really big, game-changing infrastructure decisions this country takes are seriously hard to get right. Major projects cost a lot. There are fierce debates over where they should be built. Their financing and design often requires innovation, which implies a higher level of risk. And they take a very long time from inception to opening: the lifespans of Crossrail (1974 – 2018) or HS2 (2009-2033) are significantly longer than the five year political cycle.





Improving the rail infrastructure

That means that a significant chunk of the work on infrastructure projects isn't physical at all: it's about securing agreement and building consensus in politics and society more broadly. And unfortunately in the past this short-term thinking has led to a stop-start approach to infrastructure. This has shaken confidence and hampered investment. We've been held back by it. A stop-start approach creates delay, cost increases, and a lack of confidence throughout the supply chain. We need consistent political commitment – as we had in the Olympics, won under a Labour Government, and a Labour Mayor; delivered under the Coalition Government and a Conservative Mayor. To address this challenge, we adopted a strategy across three themes: set a long-term plan, get the funding in place to deliver it, then transform how you make it happen.





The Olympic Stadium 2012

THE PLAN

Setting a long-term plan might seem obvious. The reality is we didn't have one in 2010. So the National Infrastructure Plan [NIP] is an innovation – and a transformational one.

It is a comprehensive, integrated, cross sector plan setting out our key priorities, first published in 2010 and, importantly, refreshed, refined and improved every year since. It sets a coherent vision for economic infrastructure in the UK, and includes delivery plans to 2020. And it is both a bottom-up and a top-down plan. This is because we must empower our sectors and regions – but we must also ensure coherence. Capturing the value of the interdependencies between our sectors ensures that our national infrastructure is greater than the sum of its parts.

The other fundamental point is that infrastructure planning and investment decisions have to go beyond political cycles. All of the publicly funded elements



represent a firm, specific Government commitment, giving clarity to investors and the supply chain, and developed with industry through the NIP strategic investment forum, bringing in the expertise of our key stakeholders. The latest iteration of the NIP, which we launched in December last year, contains planned investment work with over £460bn of public and private investment in communications, energy, floods, science and research, transport, waste and water.

THE MONEY

The first stage, then, was to set out our plan. But the right funding and finance is essential to making it work. We are really good with money. It is where we are – and should be – leading the world. Back in 2010, our first priority as a Government was to get public finances under control – because that would give us the fiscal capacity to fund our projects. We prioritised capital investment and, crucially, provided long-term settlements for Government departments and agencies, to 2020-21. Previously, funding was handed out on an annual basis. Long-term settlements provide long-term funding certainty, gives the supply chain confidence in the future, and allows us to unlock efficiencies.

We set out our long-term settlements at Spending Round 2013. At Autumn Statement 2014, we specified which projects those settlements would be spent on. And the sums are considerable. In 2014 we set out clear and fully-funded delivery plans for the next Parliament:

- £15bn investment on the strategic road network as part of a new Road Investment Strategy which will include undertaking over 100 major schemes to 2020-21, including transformational projects for the A303 and A1 north of Newcastle (delivered by the Highways Agency).
- A £2.3bn programme of flood investment, investing in over 1,400 schemes to protect at least 300,000 homes; underpinned by a detailed pipeline of individual schemes including at Oxford, Lowestoft, Yalding, River Thames and the Humber (delivered by the Environment Agency).
- A £38bn Network Rail delivery programme – including the electrification of key lines, as well as commitments to transformational projects such as Crossrail, phase 1 of which is due to complete in 2018, and HS2, phase 1 of which is due to start construction in 2017.



- Digital infrastructure support to ensure that 95% of premises have access to superfast broadband by 2017.
- Science infrastructure investment, including a new polar research ship and Met Office supercomputer.



Investing in Flood Defences

21 per cent of this pipeline is public investment; 14 per cent is public/private; and 65 per cent is wholly private. The UK has long been a pioneer in attracting private investment. Our public-private partnership market is over 20 years old, the most mature in the world. And it's fair to say that we have learnt several important lessons about how to do – and how not to do – private investment over those years. We are able to fund our energy, water and waste sectors privately, and do so efficiently, precisely because of our proven strength in this sector. We are number 1 for attracting investment worldwide, according to Nabarro LLP.

We have many competitive advantages: stability, clear property rights, a world-class regulatory system, transparent policy development, strong markets, and top lawyers and academics on our doorstep. In energy – one of our largest infrastructure sectors – we have introduced significant reforms to the electricity market. We've concluded the first four-year ahead Capacity Market auction, with a much lower clearing price than expected. And our legally-binding Contracts for Difference (CfDs) are supporting investment in low-carbon energy



generation, with the first auction currently underway. The UK Guarantees Scheme guarantees up to £40bn for big-ticket projects, including the Northern Line extension, Mersey Gateway Bridge, Ineos Grangemouth Ethane Import and Storage Facilities, Speyside CHP Plant and the University of Northampton.



Investing in energy production

We have set up the Green Investment Bank, the world's first investment bank for transition to a green economy, investing £1.4bn in over 35 projects. And through the insurers' infrastructure investment forum, six major insurers have committed £25bn of investment in the next 5 years.

I'm proud that we have attracted £18bn of large scale equity investments since 2010 – all from overseas, all for UK infrastructure. Manchester is a great example. We've created the conditions that have attracted hundreds of millions of pounds of inward investment from the United Arab Emirates: Etihad Stadium, a major housing scheme, university accommodation and a new graphene centre. These sorts of projects can really be transformational. But we also need to ensure we're delivering them properly.



Delivery, delivery, delivery!

When I was appointed to the Government, the Prime Minister gave me three priorities: delivery, delivery, delivery. This is an area where we have traditionally not been strong for a number of reasons. Our 2010 review of the cost of infrastructure noted the “need for a greater focus on the early stages of projects”. Historically, we’ve also not been great at getting our infrastructure projects built quickly. Though I can claim an exception here: the Olympic Park in Stratford went from bid book vision to reality in just seven years! In 2011, we set out “Top 40” priority infrastructure investments – to monitor and support progress in delivery. Specific challenges and cross-cutting issues are tackled at cabinet sub-committee level, which means that ministers across Whitehall are closely monitoring progress and working together to address challenges.

We’ve improved the commercial capability of key infrastructure departments (the Department for Transport, the Department for Energy and Climate Change, the Department for Food, Environment and Rural Affairs, and the Department for Culture, Media and Sports) through infrastructure capacity plans. These put in place specialist units with the commercial expertise that central Government has sometimes lacked. And we’ve attached particular priority to putting in place the right leadership in key delivery bodies. We’ve taken major steps to improve and streamline the planning system – speeding up the judicial review process through a new dedicated Planning Court, slimming down planning policy and guidance, and promoting sustainable development.

And though I can’t pre-empt Budget 2015, I can confirm that it will publish proposals to make compulsory planning order processes clearer, fairer and faster. Government can only do so much on its own. There are areas Government cannot reach. There are areas Government should not try to reach. And there are areas where we can only gain results through working with industry. We did this in our 2010 Infrastructure Cost Review, which generated £3bn of savings in construction costs. And we are continuing work through the Infrastructure Client Group of industry leaders.

There are two areas we are focusing on. First, embedding reforms across Government, particularly at the inception stage of projects. Working in



partnership with industry, we have established a project initiation routemap, which sets out best practice in getting projects underway. Second, using our pipeline of projects to identify key skills that are required, and targeting government schemes at those skills to make sure that we have access to them. The HS2 college is a case in point, as are upcoming colleges on shale and nuclear. In January, we heard the good news that Crossrail exceeded its target of 400 apprentices.

THE RESULTS

The result of our strategy is that we have in place strong, stable plans for the short and medium term; and we are delivering on those. We have over 2,500 significant major projects completed since 2010, including 55 major road and local transport projects, over 500 flood defence schemes and access to superfast broadband to over 1.5m premises. We have megaprojects – Crossrail, Hinkley Point C, HS2, and the Thames Tideway Tunnel, to name a few – all on track and on budget. We are building the Northern Powerhouse to be an economic counterweight to London, by connecting our great Northern cities and helping them reach their growth potential.

We are using infrastructure investment to drive home-building in a much more cohesive manner, as we did in Battersea, Barking, Bicester, Brent Cross – and even places which don't begin with B, such as Ebbsfleet. We have seen progress made on making national-level decisions such as airport capacity in the South East. We are devolving decision-making and empowering local leaders, through the 39 LEPs throughout England and through City Deals. Not least in Cambridge: the Cambridge City Deal will see a £1 billion investment in the Greater Cambridge area. And we're going even further, with the Greater Cambridge and Greater Peterborough LEP seeing a share of a further £1bn allocation from the Local Growth Fund across the country, announced on 29 January. We're opening up corridors to the South West and the North East, where for decades the quality of the road network held back productivity. And the statistic I'm most proud of is that over 60% of the projects and programmes are now in construction or part of an active programme – compared to less than half in 2013.



THE FUTURE

Although we're delivering, we cannot be complacent. Totemic projects remain a huge challenge to deliver on time, on budget, and to the benefit of all. As I mentioned at the start, the great Victorian engineers thought of infrastructure in terms of generations – not just the next five years. So, as well as continuing to develop and refine the NIP, we need to start thinking about the infrastructure needs of the mid-21st century. I see several long term challenges facing us. First, meeting the long term rise in the UK's population. Second, making the most of the opportunities new technology will offer us. And third, an increased obligation to develop resilience to climate change.

Alongside that, we need to continue improving our delivery – and make best practice standard procedure. That will involve tying infrastructure in much more closely with the broader Government agenda. Meeting these challenges will require building consensus. Bringing in external input – both from industry and from academia – will be critical. We did it when developing the National Infrastructure Plan, and we will do so again. I'm pleased to note that the Cambridge Centre for Smart Infrastructure and Construction, and the associated Centre for Doctoral Training in 'Future Infrastructure and the Built Environment', will be training more than 50 PhD students to deliver research addressing the key challenges in exactly this area, and commercialising that research to deliver new and innovative products to the infrastructure industry. One of the hardest areas will be making sure that infrastructure planning and investment decisions go beyond political cycles. Achieving the right outcomes is much more important than creating new processes. I'm not fussed about using "heavy Government machinery"; what matters is machinery on the ground.

Above all we have to be ambitious. The Victorians looked far beyond the next few years, which is why we're still using their infrastructure today. We're catching up on the lost decades. We're looking forward to the 2020s. Let's now start looking at what we want to have delivered twenty, thirty, and even forty years from now.

Paul Deighton.





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