

Response to ICE consultation on the Government's 'Levelling-up' agenda

Introduction

Balfour Beatty supports the ambition behind the Government's 'levelling-up' agenda. Economic growth in the UK has historically been and remains uneven across the regions, leading to a number of disparities in terms of quality of life. Tackling regional inequality and raising the level of economic performance and opportunities in all parts of the country to that of London and the south-east is an important goal. Infrastructure, with its ability to transform lives, has a central role to play in delivering that goal.

As the Northern Powerhouse and Midlands Engine have demonstrated, devolution has an important part to play in increasing economic growth and attracting investment. Devolution must continue in order to give Combined Authorities the power to set infrastructure priorities and drive economic growth and improved social outcomes in their local areas.

Transport investment in particular plays a key role in driving economic prosperity and spreading social value, which is why the Government's commitment to HS2 is so important. Other schemes, such as Northern Powerhouse Rail, which aims to boost productivity across northern England through improved rail capacity; and the extension of High Speed 2 (HS2) beyond Birmingham to the North, are equally important to improving connectivity, opening up opportunities for social mobility and inclusion and boosting economic performance beyond London and the south-east. Infrastructure announcements such as the Government's 5-year programme of investment in health infrastructure, including a vital new hospital building programme, will also play a key role and are extremely welcome.

Levelling-up or rebalancing the economy is something which has been identified by successive governments as a priority. It is, by its nature, incredibly hard to do and requires a full, holistic, long-term strategy. Following the economic damage wrought by COVID-19, the need for investment in infrastructure to secure inclusive growth and assist the UK's economic recovery has never been more important. With the principle agreed and the budget having been allocated, the priority now is to make sure that the infrastructure the national and local economies need is commissioned swiftly so cash can flow through the supply chain and the benefits of the infrastructure can be reaped as soon as possible.

However, equally important is that any investment is delivered strategically in order to deliver as much benefit as possible, as widely as possible and to ensure an effective, holistic national response on key issues including decarbonisation, housing

and flood resilience. As such, the National Infrastructure Strategy is a key plank of the levelling-up agenda, and Balfour Beatty looks forward to its publication.

In terms of delivering the maximum ‘bang’ for the taxpayers’ ‘buck’ spending that money, where possible with British companies will ensure that as much of the money invested as possible is spent across the UK, contributing to the levelling-up agenda. While we must of course continue to advance the message that the UK is open for business, we also need to ensure that the UK construction industry, which is responsible for 7% of GDP and 10% of UK employment², is as strong and resilient as possible and able to play its part in the levelling-up agenda to the fullest extent.

Responses

1. What should ‘levelling-up’ mean in the context of economic infrastructure?

Balfour Beatty believes that levelling-up should mean ensuring that economic infrastructure underpins the quality of life for communities, delivering locally-decided priorities and social value.

Investment in infrastructure is widely acknowledged as being one of the best ways of stimulating the economy. Infrastructure investment delivers benefits which far outweigh the initial investment: every £1 spent generates at least £2.84 in total economic activity¹. For these reasons, investment in high-quality infrastructure has been proven to be the foundation for economic growth. However, beyond the benefits delivered by the infrastructure itself, the wider benefits such as driving employment and other social value, from training and employing the long-term unemployed and previous offenders, to boosting local small, medium and micro businesses and tackling health inequalities are often under-appreciated. These outcomes are key to delivering the levelling-up ambition, which is why infrastructure is so central to that vision.

However, the UK has spent less than other major economies on infrastructure over the last 30 years², which is likely to be a factor in the productivity gap between London and the regions. The Government’s ambitious infrastructure plans are therefore particularly welcome.

It is also extremely welcome that capital investment has been made such a key element of plans to level-up, with chancellor Rishi Sunak committing in his Budget speech just before lockdown to spend 3% of the UK’s GDP on infrastructure by 2025 and to review the ‘Green Book’ used by the Treasury to calculate the economic return on public infrastructure investments and to decide how infrastructure spending across the country is prioritised. This review is particularly important, because the current formula favours areas where growth is already happening,

¹ LEK Consulting

² <https://commonslibrary.parliament.uk/research-briefings/sn06594/>

rather than considering the wider economic and social benefit of increasing growth and productivity in underperforming areas.

2. What are the priorities, in terms of economic and social outcomes, for infrastructure in the context of 'levelling-up' and how have these been affected by Covid-19?

It is often largely the economic picture which is considered when analysing the potential benefits of infrastructure investment, possibly because they are easier to calculate, measure and analyse. Priorities for infrastructure outcomes in the context of levelling-up should include both the need to increase economic growth via improved connectivity for example, and the need to addressing local socio-economic inequalities by, for instance, providing jobs for previously unemployed people, tackling crime and improving health outcomes and the local environment such as air quality.

Balfour Beatty believes that the full spectrum of economic and social value schemes could unlock must be fully taken into account to ensure the benefit to society in the broadest sense.

At a macro level, tackling climate change by decarbonising the economy, ensuring flood resilience and ensuring access to high-quality housing must be a central element of the levelling-up strategy as it is likely to be the most-deprived areas which will suffer most from the failure to effectively address these issues.

All of these areas were priorities before COVID-19 struck. Balfour Beatty believes that the economic impact of COVID-19 has only served to make delivering the improved outcomes more important. Achieving this requires the Government to continue to be bold and ambitious in setting the infrastructure strategy.

3. How could sub-national infrastructure bodies be integrated into existing infrastructure decision-making frameworks?

We believe that Government's plan to rebalance the economy using infrastructure as the key driver – and Combined Authorities and transport bodies as delivery bodies - remains the right strategic path for the UK. In particular, we welcome the announcement earlier this year of £4.bn for a number of "London-style" transport funding settlements across the mayoral Combined Authorities to help support a number of schemes including the renewal of the Sheffield Supertram, the development of a modern, low-carbon metro network for West Yorkshire and tram-train pilots in Greater Manchester.

Devolution of money and decision-making powers on transport, planning and skills and to appropriate regional bodies should continue to help underpin an approach which better meets strategic priorities across the country. However, national priorities on infrastructure of key national importance would still need to be overseen and funded centrally, in our view, although with significant input from

Combined Authorities and other local stakeholders where there is an impact on their areas and populations.

In terms of integrating these bodies into existing infrastructure decision-making, it is our view that they should be included in to the fullest possible extent, setting the priority or identifying the schemes where possible, or brought in to discussions at the inception of a scheme which impacts their area, in order to ensure it meets the specific needs and fully delivers for the relevant population. This could either take the form of creating specific, formal bodies which include all of the key stakeholders, as these ideas are developed and decisions are taken, or simply developing a requirement to operate in this way.

4. What approach and criteria should be used to develop regional infrastructure strategies across England that can support the Government's 'levelling-up' agenda?

Infrastructure must be considered as a whole across regions and also across regional boundaries and at a national level. While schemes may be commissioned one-by-one for financial reasons, they should still be considered in terms of how they will fit together and deliver against the relevant strategies, rather than in silos. Doing this allows schemes to be greater than the sum of their parts in terms of delivering the aim of levelling-up. This is particularly relevant in terms of developing strategies which have infrastructure as the centrepiece rather than the endpoint, for example, working out how development, regeneration or other improvements can be tied in to a new piece of infrastructure rather than simply waiting for this to happen organically maximises the benefits.

Regional infrastructure strategies must also be based on quality evidence and evaluation based on methodology which accurately captures both the economic and the wider benefits of potential or existing schemes.

Regional infrastructure strategies also of course need to consider existing infrastructure, both in terms of its condition and maintenance and whether assets are effectively fulfilling their purpose, but also to ensure that they are delivering against local / regional priorities.

5. What models of investment are required to ensure that infrastructure is adequately funded in all regions across England?

While the Government has its role to play, the onus will be on Combined Authority leaders to step up to the plate to come up with some of the proactive, innovative ideas to ensure that investment in their areas meets local priorities and does not stall.

Most cities have yet to leverage the full financial potential of their balance sheets. Many have yet to make compelling cases for significant private investment. Too often individual sites are put to the market, instead of a wholesale vision for a city

extending beyond just real estate, which is more likely to attract large and sustained funding to be deployed in partnership with the public sector. Municipal bonds have rarely been used in the UK, despite the establishment of the Local Capital Finance Company. More use could arguably be made of government-backed guarantees through the UK Guarantees Scheme (UKGS). Investment banks have had few approaches from cities with ideas for institutional bonds. There is a range of funds available to create Social Impact Bonds. In short, for those city leaders who are eager to act, there are a number of possible funding mechanisms outside of Government funded devolution investment vehicles that could catalyse growth. Combined authorities should be investigating these and, where necessary, making the case to be able to use them.

There will also be a role for Combined Authorities in encouraging growth in their areas by identifying small and medium sized infrastructure schemes that could be publicly funded and that will meet the Chancellor's vision of providing maximum value for money to the taxpayer by bringing about a longer-term structural contribution to the economy for example, by addressing congestion on the roads, providing housing and building communities or improving energy and communications capability to help businesses thrive.

In order to accelerate procurement and achieve value for money, local authorities could also consider steps they could take to bring schemes to fruition as quickly as possible to give their areas a stimulus for example, by using a single supplier framework such as those offered by Scape Group. These frameworks involve a carefully controlled tender process that complies with Public Contract Regulation requirements, resulting in the selection of a single supplier to deliver any project over a specified amount during an agreed timeframe. With tendering processes already completed, the frameworks result in time and cost savings by avoiding the often time-consuming and costly procurement processes for each project. This means that schemes can begin more quickly and will be delivered by an organisation that is already familiar with the supply chain and the local area.

6. How can the development of regional infrastructure strategies be leveraged to ensure that investment flows to projects and programmes across England?

Gaining new powers over strategic planning, transport, skills, housing and economic development will give areas the ability to invest in and shape their own futures, help to rebalance, or level-up the economy and take the pressure off the overheated south-east. It is our hope that devolving money and powers will result in roads, rail and other infrastructure schemes being commissioned to meet local strategic priorities because they capture wider economic benefits as defined by the region in question. For example, in Scotland, many of the road networks which have recently been upgraded, several of which Balfour Beatty has worked on, were not economic in the narrowest sense, but were deemed necessary to the growth of the Scottish economy by Holyrood.

While these organisations currently focus largely on transport, infrastructure as a lever to reduce regional inequalities and drive inclusive growth is best considered holistically. It therefore seems logical that, as the ICE discussion paper suggests, the remit of these organisations should be expanded to include all forms of economic infrastructure, to create one subnational infrastructure body for each region that is responsible for strategically identifying and articulating long-term network requirements.

About Balfour Beatty

Balfour Beatty ([balfourbeatty.com](https://www.balfourbeatty.com)) is a leading international infrastructure group. With 26,000 employees, we provide innovative and efficient infrastructure that underpins our daily lives, supports communities and enables economic growth. We finance, develop, build and maintain complex infrastructure such as transportation, power and utility systems, social and commercial buildings.

Our main geographies are the UK, US and Hong Kong. Over the last 110 years we have created iconic buildings and infrastructure all over the world including the London Olympics' Aquatic Centre, Hong Kong's first Zero Carbon building, the National Museum of the Marine Corps in the US and the Channel Tunnel Rail Link.