A National Infrastructure Commission for Wales: building for success

Plaid Cymru | Party of Wales

Plaid Cymru: Proposals for a National Infrastructure Commission for Wales

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Summary

- Plaid Cymru's (PC's) manifesto for the 2016 elections to the National Assembly for Wales stated that: *'we will establish a new body, the National Infrastructure Commission Wales (NICW), an independent public corporation that will be responsible for planning, funding and delivering the aspirations set out in the National Infrastructure Investment Plan.'*

- Plaid Cymru secured a commitment to establish a NICW in its agreement with the Welsh Government, the Compact to Move Wales Forward. NICW will be delivered as part of the Welsh Government's (WG) *Programme for Government: Taking Wales Forward 2016-2021.*[1]

- The National Assembly voted in favour of a Plaid Cymru motion on 14 September, 2016 calling on the WG to *'establish[ing] a national infrastructure commission for Wales to plan, fund and deliver our nation's transport, telecommunications, energy and green infrastructure.'*[2]

- Infrastructure is an essential ingredient for economic and social success. Infrastructure investment in the UK has often been overly concentrated in London and surrounding areas. While projects have been carried out in Wales, including those under the auspices of the WG's

[1] WG (2016) *Programme for Government, Taking Wales Forward 2016-2021*. http://gov.wales/docs/strategies/160920-taking-wales-forward-en.pdf p. 12

[2] PC motion NDM6085, *Votes Summary* (14/09/2016) http://abms/documents/b11650/Votes%20Summary%20Wednesday%2014-Sep-2016%2013.30%20Plenary.pdf?T=9 p. 5

Wales Infrastructure Investment Programme, more could be done to assist the realisation of the economic and social potential that exists throughout Wales.

- Infrastructure investment in Wales over recent years has been impeded by: the UK Government’s austerity agenda affecting the level of capital investment available to the WG; low investment levels under the Private Finance Initiative (with such investments elsewhere often constituting poor value for money) and the WG having been unable to borrow to support large infrastructure developments.

- Current circumstances may facilitate a greater focus on infrastructure as: uncertainty following the EU referendum may lead to changes in the UK Government's fiscal stance; interest rates linked to government borrowing are at historically low levels and a Non-Profit Distributing approach may offer an attractive alternative to other procurement methods.

- PC's proposals for the NICW are informed by five core principles: accountability; autonomy; delivery; probity and value for money.

- The NICW should: (1) identify, cost and prioritise a programme of projects that would collectively deliver towards the WG's infrastructure strategy, subject to funding limits - projects could include economic and social infrastructure; (2) arrange the funding for, and manage the delivery of, a large-scale procurement programme and (3) advise the WG on infrastructure priorities and other issues.

- The NICW would face challenges including: prioritising infrastructure projects; developing the internal capacity to arrange the financing and delivery of infrastructure and addressing the relative lack of shovel ready projects. Lessons must be learnt from programmes throughout the UK and beyond when developing the NICW’s working methods.

- The NICW should be a public corporation, established on a not-for-distributable profit basis. Retained profits would be used to improve the corporation's balance sheet and to invest in public sector infrastructure projects in Wales. The NICW would be owned by the WG, but would operate on an arms-length basis. An Assembly Act should set out its structure, roles and powers.

- A board of directors, accountable to the WG, would control the commission. Directors should have high-level experience in areas relevant to the NICW’s operation. The NICW's staffing complement should be of a skills profile and scale to ensure the delivery of an ambitious programme.

- The NICW should aim to use the Non-Profit Distributing approach. While transaction structures linked to this approach are under review, recent developments indicate that they may remain a viable option. Publicly backed infrastructure projects can offer an attractive risk profile to private sector investors. PC proposes raising some £7.5 billion over ten years to support the NICW's investment programme. The estimated debt servicing cost peaks in 2026 when it could be four per cent of the WG's budget.

- Delivery approaches would be tailored, but a school could be delivered as: (1) the WG decides to prioritise school construction projects; (2) a Local Education Authority (LEA) approaches the NICW to build a school; (3) the commission assesses the project and whether or not to proceed; (4) a project is worked up with the NICW creating project structures and raising finance; (5) the commission tenders construction to the private sector, before taking ownership of the completed school; (6) the LEA enters into a long term lease, including responsibility for maintenance and (7) lease payments service the school-related debt. Once the debt is repaid, ownership could transfer to the LEA.

- While public sector bodies would not be obliged to use the NICW, it would provide an alternative to other types of public procurement models. Over time, the NICW's programme should lead to greater contractual standardisation and procurement procedures, acting to reduce costs.

- The NICW could deliver a step change in the volume of infrastructure investment throughout Wales as well as develop a more strategic and integrated approach. It offers the WG an opportunity to create lasting economic and social improvements, for the long-term betterment of the people of Wales.

1 Introduction

Plaid Cymru's (PC) manifesto for the 2016 elections to the National Assembly for Wales (NaW) stated that:

> We will establish a new body, the National Infrastructure Commission Wales, (NICW), an independent public corporation that will be responsible for planning, funding and delivering the aspirations set out in the National Infrastructure Investment Plan.
>
> NICW will seek to arrange for the funding of these projects in a variety of different ways, including from the European Investment Bank and other European institutions, UK sources like the Green Investment bank and Infrastructure UK, working with local authorities, pension funds and other institutional investors and using long term leasing arrangements to raise funds independently of the UK Government's balance sheet, enabling it to borrow

> additional funding at historically low interest rates to invest in vital Welsh infrastructure projects, creating jobs in the Welsh economy.[3]
>
> We will be able to substantially increase the capital investment programme by using the not-for-profit distributing model in a more ambitious and strategic manner, coordinated by a new National Infrastructure Commission.[4]

Our proposals involve a step change in the volume of infrastructure investment throughout Wales as well as the development of a more strategic and integrated approach. We believe that a well-chosen, well-resourced and well-managed programme of such investment could have a range of positive economic and social impacts.

This document outlines PC's views as to how the NICW could work. It briefly discusses the role of infrastructure within economic and social development (section 2); comments on the need for infrastructure investment in Wales (section 3); outlines the proposed NICW (section 4) across its governance mechanics (section 4.1), its funding model (section 4.2) and its approach to prioritisation and delivery (section 4.3). Section 5 concludes.

2 Infrastructure and development

Infrastructure comprises physical forms used as inputs to the production of goods and services across the economy. Economic infrastructure includes those linked to transport, telecommunications, water, energy production and distribution as well as waste disposal and processing. Social infrastructure encompasses education, health, housing and other public facilities.

Infrastructure is an essential ingredient for economic and social success given its direct and indirect impacts on productivity, employment and economic growth. Academic and governmental studies highlight the positive effect of much infrastructural investment on economic growth, although the exact relationships are difficult to quantify and infrastructure must be selected carefully if significant impacts are to be achieved. For example, in 2008 the World Bank summarised the most cited investigations of infrastructure project impacts on economic output. The studies analysing projects in developed countries were combined to generate estimates that 69.6 per cent of such projects had a positive and significant impact, 21.7 per cent had non-significant impacts and 8.7 per cent had negative and significant impacts.[5] As well as impacts on general economic growth,

[3] PC (2016) *Manifesto, The Change Wales Needs.* https://d3n8a8pro7vhmx.cloudfront.net/plaid2016/pages/328/attachments/original/1459864681/2016_Plaid_Cymru_Manifesto.pdf?1459864681, p. 73.

[4] PC (2016) *Manifesto*, p. 49.

[5] Straub, S. (2008) *Infrastructure and Development: A Critical Appraisal of the Macro Level Literature*. Policy Research Working Paper; No. 4590. Washington, DC: World Bank, p. 16.

infrastructure projects also have immediate employment and economic impacts during their construction, although the extent to which these are retained in a specific area depends on a range of factors including procurement policy. Finally, infrastructure can also have a range of positive social impacts, with successful projects contributing towards the creation and sustenance of local social networks and shared community experiences.

At the same time, the low rates of interest currently applicable to government borrowing can combine with an appetite for economic stimulus to strengthen the case for such investment. For example, the Organisation for Economic Cooperation and Development (OECD) stated in February 2016 that:

> Governments in many countries are currently able to borrow for long periods at very low interest rates, which in effect increases fiscal space. […] A commitment to raising public investment collectively would boost demand while remaining on a fiscally sustainable path. Investment spending has a high-multiplier [the relationship between fiscal intervention and economic growth], while quality infrastructure projects would help to support future growth, making up for the shortfall in investment following the cuts across advanced countries in recent years.[6]

Overall, a modern and efficient infrastructure is a prerequisite to economic and social success. An insufficient volume of correctly targeted infrastructure may cause an economy to struggle to raise its productivity and compete effectively in international markets. Over time, such underperformance may lead to reduced growth in economic output, wages and living standards. Lower levels of growth may also negatively affect the tax base and the linked volume of tax related resources available to governments.

3 Infrastructure and Wales

Infrastructure investment in the UK has often been overly concentrated in London and the south east of England, with current examples including Crossrail and the proposed Crossrail 2. While projects have been carried out under the auspices of the Wales Infrastructure Investment Programme, established by the Welsh Government (WG) in 2012, more could be done to deliver the infrastructure that would assist in the realisation of the economic and social potential that exists throughout Wales.

However, the delivery of such investment has been impeded over recent years by:

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[6] OECD (2016) *Interim Economic Outlook, February 2016*, https://www.oecd.org/eco/outlook/OECD-Interim-Economic-Outlook-February-2016.pdf, p. 7.

- The UK Government's austerity agenda significantly affecting the level of capital investment available to the WG, and hence the general availability of funding for infrastructure. As an indicator of general budgetary circumstances, the WG noted in December 2015 that 'our capital budget will still be nearly a third lower in real terms by 2020-21 than it was in 2009-10.'[7]

- A relative lack of investment through the Private Finance Initiative (PFI), developed by previous UK Governments as a primary vehicle for infrastructure investment. While PFI's limited usage may have protected the WG from the excessive and long-term costs often associated with such projects, it also contributed to low levels of infrastructure development.

- Organisational constraints on the WG. It has been unable to borrow to support large-scale infrastructure developments. While the WG will have such powers from 2018, its total capital borrowing will be limited to £500 million. This is insufficient to fund a large-scale programme of infrastructure. In addition, it is unable to choose independently to levy taxes to support greater investment. Finally, any savings made by the WG to support infrastructure development may, in some circumstances, be viewed by HM Treasury as unspent allocations and be reclaimed.

The need for continued infrastructure investment in Wales often features in public debate, as reflected in statements made by the Welsh and UK Governments. For example, the WG's former Minister for Finance and Government Business, Jane Hutt AM, stated in February 2016 that:

> Investing in infrastructure is a key component of our approach to supporting sustained economic growth and central to our response to providing an economic stimulus in recent years.[8]

The UK Government's former Secretary of State for Wales, Stephen Crabb MP, stated in June 2014 that:

> Infrastructure investment is key to securing stronger and more sustainable economic growth in Wales. For businesses to invest and grow, they need confidence that they will have access to the infrastructure that will support that growth – transport, energy and telecommunications. This infrastructure must be secure and resilient, located in the right place and accessible at the right time.[9]

[7] WG (2015) *Draft Budget 2016–2017, Fairer, Better Wales – Investing for the Future, December 2015*. http://gov.wales/docs/caecd/publications/151208-budget-narrative-eng.pdf, p. 2.
[8] WG (2016) *Wales Infrastructure Investment Plan – Project Pipeline Update – February 2016*. http://gov.wales/docs/caecd/publications/160205-pipeline-en-v1.pdf, p. 2
[9] Wales Office (2014) B*uilding a more prosperous Wales, infrastructure for a more modern economy*, April 2014.

The level of infrastructure investment required in Wales has yet to be fully quantified. The WG's Infrastructure Investment Programme project pipeline lists 365 economic and social schemes with a total value of some £40 billion,[10] although the nature and extent of public sector involvement varies widely. As well as this, the UK Government annually quantifies planned public or private investment in economic infrastructure projects of more than £50 million. While this includes projects at an early proposal or planning stage and is not intended to list all economic infrastructure requirements, it aims to provide a 'strategic and more credible overview of the level of public and private infrastructure investment planned over the rest of this decade and beyond'.[11] Its 2016 assessment identified 17 major projects with a focus on Wales (excluding UK wide projects), with potential costs of some £19 billion.[12]

However, current circumstances may facilitate a greater focus on infrastructure, as:

- Economic uncertainty following the result of the referendum on the UK's membership of the European Union may lead to changes in the UK Government's fiscal stance. The previous government's commitment to eliminate the UK's budget deficit by 2020 has been side-lined, with the Chancellor of the Exchequer stating in July 2016 that fiscal policy may be 'reset'.[13]

- Interest levels linked to government borrowing are at historically low levels, meaning that current borrowing has reduced in cost. For example, yields on 10 year UK Government Bonds (a standard indicator of long-term interest rates) stood at less than 1 per cent in July 2016. This was the lowest level since fully comparable data began in 1984 (See Graph 1).

Graph 1: UK Government borrowing costs, 1984 to 2016 (a)

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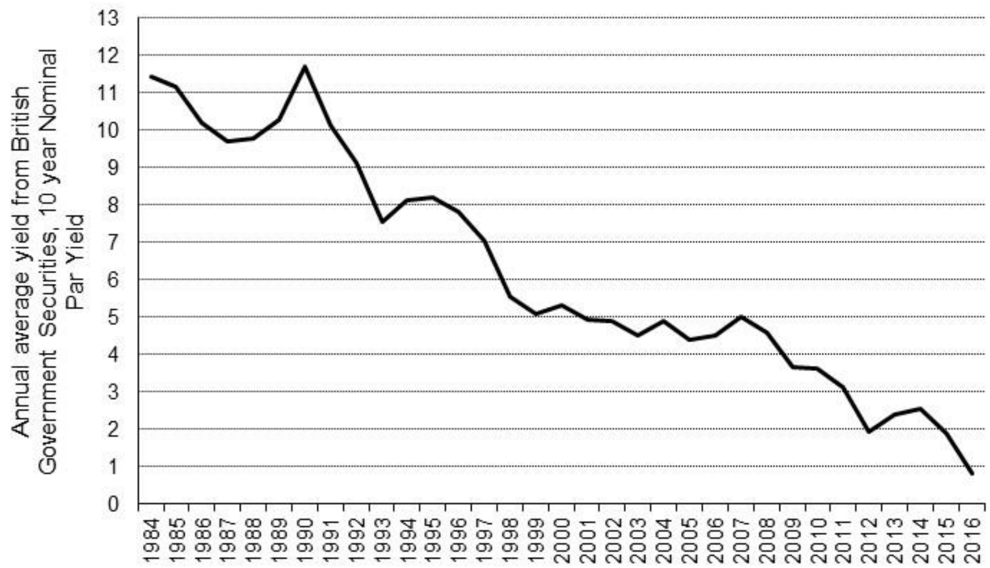
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325003/INFRASTRUCTURE_REPORT_FINAL.pdf, p.1.

[10] WG (2016) *Wales Infrastructure Investment Plan – Project Pipeline Update – February 2016*, p. 2.

[11] UK Government (2016) *National Infrastructure Pipeline 2016*, https://www.gov.uk/government/publications/national-infrastructure-pipeline-2016.

[12] House of Commons (2016) *Briefing Paper, Infrastructure Policy*. http://researchbriefings.files.parliament.uk/documents/SN06594/SN06594.pdf, p. 15.

[13] BBC News (2016) *Chancellor may 'reset' economic policy in Autumn Statement*, http://www.bbc.co.uk/news/business-36864099



Note (a): Data relate to December of each year, apart from 2016 (July).

Source: Bank of England, Series IUAAMNPY (1984 to 2015); Bloomberg (July 2016).

- Transaction structures linked to the Non-Profit Distributing (NPD) approach[14] offer an attractive alternative to PFI and traditional procurement methods. While its future applicability to infrastructure projects is subject to clarification (see section 4.2), its usage could facilitate a large-scale programme of infrastructure investment.

4 The National Infrastructure Commission for Wales

What could the NICW do? In summary, it should:

- Identify, cost and prioritise a programme of projects that would collectively deliver towards the WG's overall infrastructure strategy, subject to overall financial limits. Projects would include schools and hospitals and could extend to roads and housing.[15] Further types of infrastructure such as other modes of transport, energy, water, waste and telecommunications should also be considered for inclusion within the NICW’s remit, subject to feasibility assessments as well as prioritisation within overall financial limits. While the NICW would have a primary role in delivering the WG’s infrastructure strategy, it would not be responsible for the entirety of the WG’s capital investment programme.

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[14] ’Non-Profit Distributing’ refers to ‘capped profit’ type transactions as developed by the Scottish Government. ‘Not for Distributable Profit’ refers to an entity with eponymous characteristics.

[15] PC (2016) *How Plaid Cymru's National Infrastructure Commission for Wales would work*. http://www.plaid2016.wales/cscc_nicw

- Arrange the funding for a large-scale construction programme of economic and social infrastructure. Borrowing linked to this programme could be some £7.5 billion, while further support could also be drawn from WG capital budgets although this funding would most likely sit outside NPD type structures.

- Procure projects within its infrastructure development programme through operating a tendering process, before monitoring the projects' delivery.

- Advise the WG on the government's infrastructure priorities, as well as on issues arising from infrastructural development, such as those relating to skills requirements and supply chains.

Given that the delivery of economic and social infrastructure projects is fraught with potential difficulties, PC's proposals for the NICW are informed by five core principles:

1. **Accountability**: The NICW would be fully accountable to the WG, and subject to scrutiny by the NaW through the formal Committee process. Accountability channels must be clearly defined within the NICW's governance model.

2. **Autonomy**: The NICW should have sufficient autonomy to enable delivery across its project portfolio, while remaining fully accountable to the WG and the NaW.

3. **Delivery**: The NICW would be judged on its ability to deliver its work programme within agreed financial and operational parameters. It must be staffed, structured, managed and overseen to maximise its ability to do so. Its organisational culture needs to be sufficiently flexible to work effectively with organisations across the public and private sectors.

4. **Probity**: The NICW would be responsible for the development of large-scale public assets. The need to demonstrate probity across all of its operations would be paramount. Where commercially feasible, its workings should be characterised by transparency.

5. **Value for money**: The NICW should have a commercially informed focus on ensuring the maximum levels of value for money.

The scale and complexity of the NICW and its investment programme means that implementation would need to be phased, with careful consideration given to: (1) Governance and accountability; (2) Funding; (3) Prioritisation and delivery.

4.1 Governance and accountability

Within infrastructure procurement, governance matters because its function is to 'ensure that an organization or partnership fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an effective, efficient and ethical manner'.[16]

Many of the operational and financial problems that have impacted on public sector infrastructure development can be avoided or minimized by governance structures that achieve a balance between the natural desire of project sponsors to retain control, and the delivery team's need to have sufficient freedom to allow it to manage risk and to meet project objectives.

PC proposes to address this potential conflict by structuring the NICW as a public corporation, on a not-for-distributable profit basis. Retained profits would be used to improve the corporation's balance sheet and to invest in public sector infrastructure projects in Wales. The NICW would be owned by the WG, but would operate on an arms-length basis. An Assembly Act should set out its structure, roles and powers (financial, operational and other).

The NICW would be fully accountable to the WG. The relationship between the two bodies should be formally documented, containing details including:

- The NICW's overall aims, objectives and targets in support of the WG's strategic aims and priorities, as well as guidelines on the NICW's exercise of its functions, duties and powers. While most of the NICW's activity would focus on the prioritisation and delivery of infrastructure projects, it would also advise the WG as to issues such as workforce skills planning as well as supply chain impacts and capacity.

- The NICW's corporate planning processes, and how the WG would be involved in the setting and monitoring of these. The aim would be to ensure sufficient oversight while ensuring the NICW's operational independence. Such processes could include:

    a. Annual remit letters setting out the WG's broad expectations.
    b. A multi-year corporate plan.
    c. Annual business plans setting out how the board would align activities with the strategic direction set out in the corporate plan.
    d. The type, volume and frequency of monitoring data to be provided to the WG to enable the commission to be held accountable for its performance.

[16] The Independent Commission on Good Governance in Public Services (2004) *The Good Governance Standard for Public Services*. http://www.opm.co.uk/wp-content/uploads/2014/01/Good-Governance-Standard-for-Public-Services.pdf, p. 7.

The NaW must be able to hold the NICW to account, especially through the committee system. Given the likely scale and profile of the NICW's activity, such scrutiny would need to be a detailed and ongoing process. Finally, the NICW would be subject to the Freedom of Information Act, the work of the Wales Audit Office as well as company legislation.

The commission would be controlled by a board of directors, accountable to the WG for all aspects of the NICW's performance. Most directors would be non-executive, appointed by the WG for terms of at least five years. They should reflect the nature of the NICW's activity, comprising individuals with collective high-level experience within commercial finance, procurement, construction, project management, public administration and related legal areas. Executive directors would be drawn from the NICW's senior management.

The board would appoint a Chief Executive, responsible for the NICW's day-to-day operations. The NICW would need its own complement of staff. Given the nature and scale of the NICW's activity, these would need to possess skills profiles of a type and level sufficient to ensure successful delivery. A collective ability to combine high-level commercial and public sector skillsets would be particularly important, as would be a robust and well-resourced internal compliance function. While the scale of the NICW's operations would require a staffing complement of a size sufficient to enable delivery, employee numbers should remain at a reasonable level to ensure the creation and maintenance of a tightly focused, manageable organisation.

4.2 Funding

Model

The NICW should generally aim to use transaction structures linked to the Non-Profit Distributing (NPD) approach. These provide a funding model for public-private partnership projects that raises financing from private sector sources while avoiding issues often associated with PFI, such as higher than expected private sector profits and some loss of public control over public sector assets. Such structures also generate an 'off public balance sheet' classification from the Office for National Statistics (ONS) which has a number of financial advantages.

NPD type projects are structured so as to: ensure that rates of return achieved by private sector partners do not exceed an acceptable level; enable greater levels of public sector control and ensure that any surplus profit can be held within the public sector. Projects have generally been engineered around a specially created Special Purpose Vehicle (SPV) limited by non-dividend bearing shares. Apart from a 'golden share' held by the public sector, all shares are held by private sector investors. This ensures that the SPV is managed by the parties whose lending is at risk, with the 'golden share' giving the public sector control over the SPV's corporate, governance and management structures.[17]

The WG previously committed to some infrastructure projects under a NPD type structure, namely the 21st Century Schools Programme, the dualling of sections of the A465 and the redevelopment of the Velindre cancer centre. However, the progress of such structures throughout the UK was halted in July 2015 by the ONS' decision to reclassify a Scottish Government (SG) project as 'on balance sheet' (based on Eurostat rules). However, the SG then proposed an alternative ownership model for some SPVs.[18] In November 2015, the SG noted that the ONS had confirmed that the proposed model would be classified as private sector and thus eligible to proceed on an NPD type basis.[19]

While the extent to which such a revised approach can be used across all projects remains to be clarified, as does the future role of Eurostat regulations in the UK, the ONS decision indicates that the NPD type structure may remain a viable option for infrastructure. The WG should, in consultation with the ONS, the SG and the UK Government, seek to develop a NPD type structure for the NICW. However, the NICW should be flexible when considering transaction structures that could facilitate project delivery, although all such structures must be fully compatible with the commission's ethos and approach as set by the WG. For example, some types may be suitable for projects that feature an income stream (such as some housing, broadband and energy generation projects), while those that may not feature an income stream but do deliver a return by making the economy more productive (such as some transport projects) may benefit from a different approach. Finally, the NICW should also explore methods by which portions of the WG's existing capital investment budgets could potentially be deployed and leveraged by the NICW.

Sources of funding and estimated overall costs

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[17] Blake Morgan (2015) *Non-Profit Distributing Model – The Future for Welsh Infrastructure Projects?* https://www.blakemorgan.co.uk/attachments/89974/NPD_capability_document.pdf, pp. 1-2.

[18] Blake Morgan (2016) *Non-profit distributing - has Scotland found a model that works for infrastructure projects across the whole of the UK?* https://www.blakemorgan.co.uk/news-events/news/non-profit-distributing-has-scotland/ The proposed model (covering 'hub' SPVs) is: 60 per cent owned by the private sector; 20 per cent by a charity; 10 per cent by Scottish Futures (an executive arm of the SG), and; 10 per cent by the procuring authority. Hub SPVs include smaller Design, Build, Finance and Maintain projects, as opposed to very large infrastructure projects.

[19] The Scottish Government (2015). *Update on Scotland's Public Finances, 26 November 2015.* http://news.scotland.gov.uk/Speeches-Briefings/Update-on-Scotland-s-Public-Finances-1fb2.aspx

Publicly backed infrastructure projects can offer investors an attractive risk profile when compared with other types of investment. While the appetite for debt that might be offered by the NICW cannot be assessed accurately at this point, such debt may prove attractive to sources including: capital markets; Infrastructure UK's Guarantee Scheme; the Green Investment Bank; the Pensions Infrastructure Platform and pension funds. In terms of scale, one funding source within capital markets could be unlisted UK based infrastructure funds. Commercial researchers have estimated that the unlisted UK-based infrastructure fund market is the largest in Europe, with UK based infrastructure funds raising some £50.8 billion since 2006 for investment on a UK, European and global basis.[20]

As an indication of the scale of the market within which the NICW would operate, 122 deals relating to UK infrastructure transactions were completed in 2015. They had a combined deal value of some £36.9 billion, with funding sourced from UK based and overseas investors. Data on the sectoral scope of deals made since 2013 shows that renewable energy accounted for some 47 per cent of the combined deal value, followed by social assets including educational buildings and hospitals, accounting for 30 per cent. Other prominent sectors included transport, utilities and energy.[21]

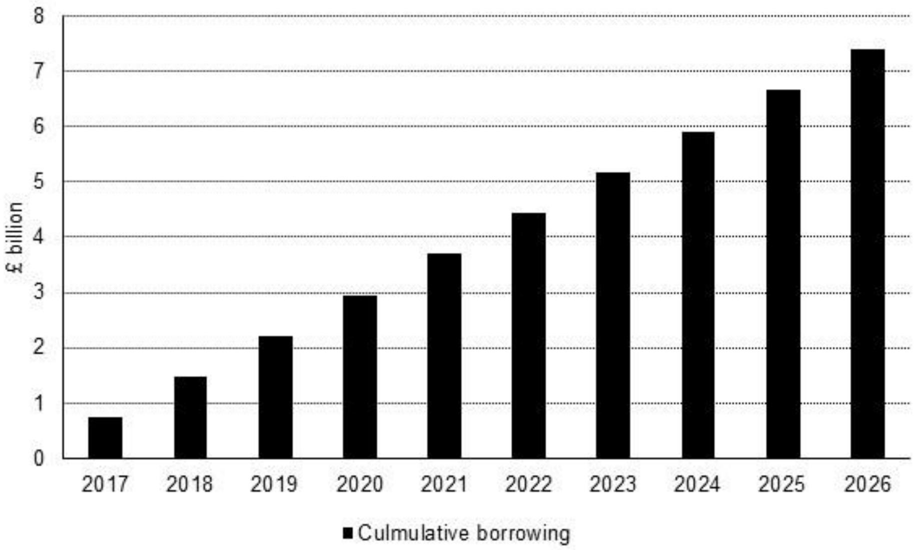
The WG's capital investment budget as defined by the UK Government is some £1.5 billion for 2016-2017, rising to some £1.7 billion (nominal) by 2020-2021.[22] PC proposes that the NICW could raise some £7.5 billion over a ten-year period (see Graph 2) to finance its programme of development. This would be additional to the WG's capital investment budget, some of which could also be used to support the NICW's programme of infrastructure investment although non-NPD structures would most likely be necessary.

Graph 2: Cumulative borrowing (estimated), 2017 to 2026.

[20] Preqin (2016) *The UK Infrastructure Market*, https://www.preqin.com/docs/reports/Preqin-UK-Infrastructure-Market-May-2016.pdf

[21] Preqin (2016) *The UK Infrastructure Market*.

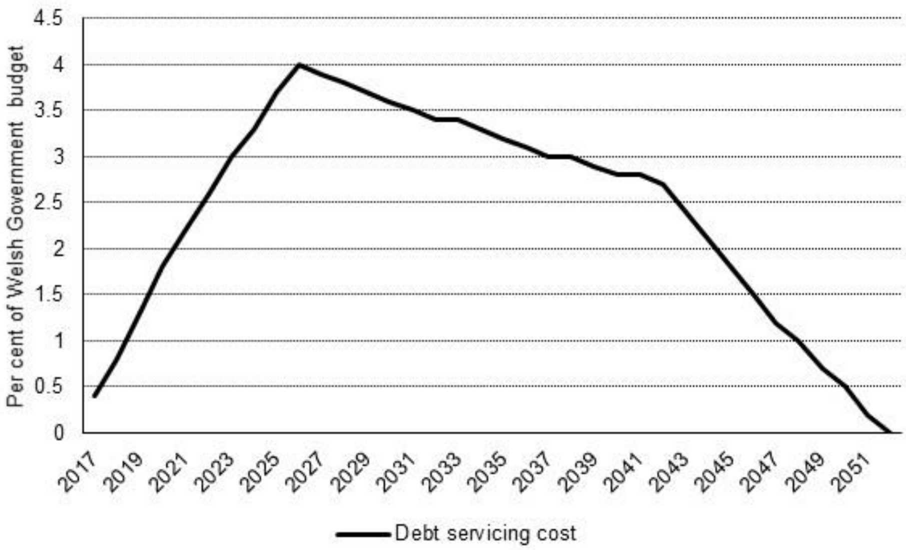
[22] UK Government (2016) *Budget HC 905 [Red Book*] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf, p. 92.



Source: Costings underlying Plaid Cymru's 2016 Welsh General Election manifesto.

The NICW would borrow over 25 years. On this basis, the estimated cost of servicing the debt (including paying off both the capital and the interest) rises to its peak in 2026 (see Graph 3), when it could be some four per cent of the WG's budget. When the ten-year programme of fund-raising is complete, the estimated servicing costs would fall as a percentage of the estimated Welsh Budget.

Graph 3: Debt servicing costs (estimated), 2017 to 2051 (a-c).



Notes:

(a) Welsh Budget initially fixed in nominal terms, but nominal growth of 2.5 per cent after 2020 assumed.

(b) Annuity rate assumed as rising from 7.3 per cent in 2016 to 9.7 per cent by 2020. Level thereafter.

(c) Data assume that no further borrowing takes place after the initial ten-year period, although a future WG could decide otherwise.

Source: Costings underlying Plaid Cymru's 2016 Welsh General Election manifesto.

4.3 Prioritisation and delivery

Investment priorities would need to be decided upon by the WG following advice from the NICW as to how the medium to long-term infrastructure needs of Wales could best be defined, measured and met. Once priorities have been decided, the NICW would be responsible for the identification, prioritisation, planning, funding and delivery of projects that could collectively deliver towards the WG's strategic objectives.

If these tasks are to be executed successfully, the NICW would face a number of challenges, including:

- The need to prioritise projects proposed for delivery under the auspices of the WG's investment priorities. A mechanism for doing this would need to be agreed with the WG and should operate in a transparent fashion. This process could include multi-stage assessments against criteria such as deliverability, financial feasibility, fit with WG priorities, level of economic and/or social impact and environmental implications.

- The NICW would need to develop the internal capacity to arrange the financing and procurement[23] of a large-scale programme of infrastructure development across projects of varying scale and complexity. As a result, it will need to develop robust and reactive project/programme management processes.

  In doing so, it would need to take account any lessons learned from approaches that have been tried and tested elsewhere, such as those within Crossrail and other infrastructure projects. For example, a report by the UK Government's Infrastructure and Projects Authority on the delivery of major capital infrastructure projects noted that:

  > *There has proved to be a need for significant public sector involvement in managing a programme [...] in order to create the conditions under which the private sector will deliver effectively.*
  >
  > *The delivery of these programmes has taken place in the context of a robust project control environment overseen by the public sector.*

[23] The NICW's procurement policies, where possible, should be developed with the aim of retaining a high proportion of project-related economic impact within Wales as well as supporting the WG's economic development activity.

Enabling a more sophisticated commercial and operating environment has typically required significantly enhanced public sector capability.[24]

- A relative lack of shovel ready infrastructure projects means that delivery would be a gradual process as new projects are brought forward.

How might the NICW work in practice? While differing regulatory and technical contexts means that delivery approaches would often have to be tailored, potentially by project type, across the commission's portfolio, a school could be delivered as follows:

1. The WG prioritises school construction projects of a certain type and tasks the NICW with their delivery.

2. A Local Education Authority (LEA) approaches the NICW to build a school on its behalf.

3. The NICW assesses the school project and decides to proceed, most likely as part of a larger programme.

4. The NICW works with the LEA to develop proposals, while the commission creates project structures and raises finance.

5. The NICW tenders construction to the private sector. The commission supervises all aspects of contract delivery, before taking ownership of the completed school.

6. The LEA enters into a long-term lease with the NICW to occupy the school.

7. Lease payments made by the LEA would service the school-related debt raised by the NICW. The NICW retains ownership, but the LEA would be responsible for the day-to-day management of the premises. Once the debt is repaid, the NICW's ownership of the school should transfer to the LEA.
   This approach has some similarities to the leasing of commercial property where the tenant is responsible for maintenance and reinstatement before the property reverts to the owner, who can then sell the property or transfer it to the tenant who then becomes the owner.

While public sector bodies would not be obliged to use the NICW, the commission would provide an alternative to conventional PFI and other types of public procurement models. In contrast to PFI, the NICW would not generally seek to combine construction contracts and operating/service

[24] Infrastructure and Projects Authority (2016) *Major Capital Programmes: A discussion document based on insights from recent experience*, pp. 3-4. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/509686/IPA_Experience_From_Major_Capital_Project.pdf

contracts, instead acting as the landlord of the building, or owner of the asset while debt linked to the project is repaid. The operation of buildings/assets would generally be the responsibility of public sector partners, and such assets would generally be transferred to these partners once debt linked to their construction is discharged.

Over time, the NICW's programme of activity should lead to greater standardisation in contractual documentation as well as in procurement procedures. This should combine with economies of scale to reduce costs and increase transparency and certainty, with the overall effect of enhancing the likelihood of the more efficient delivery of public administration. Overall, the NICW would offer public sector organisations access to a centre of expertise with a public sector mission that can use its specialisation and experience to deliver capital projects in an efficient manner, while also offering the development of a greater volume of infrastructure than at present.

5 Conclusion

While the delivery of the NICW and its programme of investment is not without challenges, a successful commission delivering carefully selected infrastructure projects could offer the following benefits:

- A long-term, more integrated and strategic approach to all aspects of infrastructure development.

- Provide a significant boost to the levels of capital funding available to the public sector.

- Deliver a large volume of economic and social infrastructure vital to the nation's economic and social success.

- Enable access to private sector finance on a fairer and more efficient basis that is the case with PFI, including the retention of some profits for further investment within the public sector.

- Create a centre for expertise for infrastructure procurement, driving efficiency through efficiencies of scale and reducing costs.

- Improve social conditions throughout Wales through the provision of more social infrastructure.

- Provide economic stimulus, including the creation of a large number of jobs across Wales within construction and associated supply chains.

- Deliver greater levels of economic growth throughout Wales. Over the longer term, this could act to reduce the gap between the per capita economic output of Wales relative to the UK average.

Overall, implementation of the NICW along the lines set out in this document offers the WG an opportunity to create lasting economic and social impacts, for the long-term betterment of the people of Wales.