

RAIL NEEDS ASSESSMENT FOR THE MIDLANDS AND THE NORTH

**Technical annex: The fiscal remit and
the assessment budget**

The fiscal remit and the assessment budget

The fiscal remit is a long term funding guideline given to the Commission by government, which states the Commission “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 1.0 per cent and 1.2 per cent of GDP in each year between 2020 and 2050.”

This note sets out how a budget for the Rail Needs Assessment has been derived from the Commission’s ‘table 7.1’ fiscal remit table published in the **National Infrastructure Assessment**.

The budget is illustrative, and it is for the government to decide on the level of spending on rail investments in the Midlands and the North of England. Deriving an illustrative budget for the assessment requires assumptions about the future division of funding between road and rail enhancements, and the share of enhancements funding in the Midlands and North relative to the rest of the country. These assumptions should not be interpreted as Commission recommendations, or as its judgement about the appropriate divisions of expenditure.

As explained in section 3.2 of the Rail Needs Assessment interim report, a total budget for the assessment between 2020 and 2045 which is consistent with the *National Infrastructure Assessment* fiscal remit is £86.2 billion. Aligned with the terms of reference for the assessment, this budget covers strategic rail enhancements expenditure for the Midlands and North of England. The components of this budget are set out in the table below.

Two additional illustrative budget scenarios, which are higher than the budget consistent with the *National Infrastructure Assessment* fiscal remit, will also be used as envelopes for presenting packages. The first assumes that money available for rail spending is 25 per cent higher than the scenario shown above: **£107.8 billion** in total between 2020 and 2045. The second assumes that money available is 50 per cent higher: **£129.3 billion** between 2020 and 2045.

These higher scenarios could be achieved through a combination of additional government spending or reprioritisation of spending, although the Commission advises the government not to reprioritise spending within the fiscal remit. The Commission will not reopen other sections of its fiscal remit recommendations to fund strategic rail.

Although the full expected costs of the schemes being considered by this assessment still does not fall within even the higher +50 per cent scenario, making cost reductions on existing schemes could enable more suggested proposals to be included in these fiscal envelopes.

Average annual expenditure (£million, 2019/20 prices)	2020-2025	2025-2030	2030-2035	2035-2040	2040-2045	Total expenditure 2020/21 to 2044/45 (£million, 2019/20 prices)*
HS2	4,600	3,900	900	-	-	47,400
<i>of which: Phases 1 and 2a</i>	3,800	400	100	-	-	21,400
<i>of which: Phase 2b</i>	800	3,600	800	-	-	26,000
Northern Powerhouse Rail	200	1,200	1,700	1,700	-	24,000
Network Rail Enhancements (Control Period 7 + 2029/30)	200	800	-	-	-	4,600
Rail share of Strategic Transport Fund enhancements**	-	-	1,550	2,130	2,120	29,000
<i>of which: North/Midlands share of Network Rail Enhancements and Strategic Transport Fund rail enhancements***</i>	100	300	700	900	900	14,900
RNA enhancements budget:	4,800	5,400	3,300	2,700	900	86,200
HS2 + Northern Powerhouse Rail + North/Midlands share of Network Rail Enhancements and Strategic Transport Fund rail enhancements*						
<i>of which: HS2 Phases 1 and 2a</i>	3,800	400	100	-	-	21,400

* Totals in table may not sum due to rounding

** Strategic Transport Fund enhancements rail share = 43 per cent

*** Based on North/Midlands share of projected England & Wales population (44 per cent on average between 2020 and 2045)

Notes on deriving a Rail Needs Assessment budget from the National Infrastructure Assessment fiscal remit plans

Prices

The fiscal remit table published in the *National Infrastructure Assessment* is presented in 2018/19 prices, whereas the Rail Needs Assessment budget table is presented in 2019/20 prices. Because GDP deflators are revised regularly, the fiscal remit costs in constant 2018/19 prices from the *National Infrastructure Assessment* are converted into nominal prices using the GDP deflators available at the time, before being converted into constant 2019/20 prices using the latest available deflators.¹

High Speed 2 and Northern Powerhouse Rail

The budgets for High Speed 2 and Northern Powerhouse Rail, as assumed at the time of the *National Infrastructure Assessment*, are included directly in the assessment.

Network Rail

The budget line for Network Rail in the *National Infrastructure Assessment* fiscal remit table includes enhancements and renewals in Control Period 6 (Network Rail's five year financial plan for 2019-2024), Control Period 7 (2024-2029) and 2029/30. Control Period 6 enhancements are assumed to be committed, so only Control Period 7 (2024-2029) and 2029/30 Network Rail enhancements are included in the assessment.

Strategic Transport

The *National Infrastructure Assessment* produced a combined allocation for road and rail enhancements and renewals from 2030/31 onwards, which is captured in the 'Strategic Transport' spend line found in the published fiscal remit table. To set a budget for the assessment a portion of this has been allocated to strategic rail enhancements. This is calculated by:

- subtracting expected future requirements for road and rail renewals from the total Strategic Transport budget, as the Commission has stated that maintenance spending should be protected
- sharing the enhancements budget between road and rail based on their average shares of enhancements expenditure across the period 2020/21 to 2029/30. The rail share of enhancements is calculated to include expenditure on Network Rail enhancements including Control Period 6, Northern Powerhouse Rail and the central section of East West Rail. The road share includes expenditure on Highways England enhancements including Road Investment Strategy 2, and the Oxford to Cambridge Expressway.

The result is that 57 per cent of the Strategic Transport enhancements budget from 2030/31 is allocated to road enhancements, and 43 per cent is allocated to rail.

Midlands and North share of rail enhancements

The rail enhancements budget is broken down to allocate a share of expenditure to the Midlands and North of England. This is calculated by using projected population for the Midlands and North regions as a percentage of total projected population in England and Wales.²

This percentage is applied to the Network Rail Enhancements budget before 2030/31, and to the rail share of Strategic Transport enhancements thereafter.

Expenditure on High Speed 2 and Northern Powerhouse Rail would mean that the total strategic rail expenditure to the Midlands and North of England would be higher than its population share of the rail enhancements budgets.

Endnotes

- 1 The latest available GDP deflators are from HM Treasury (June 2020), **GDP deflators at market prices, and money GDP June 2020 (Quarterly National Accounts)** and Office for Budget Responsibility (March 2020), **Long-term economic determinants**
- 2 Office for National Statistics population projections data for England and Wales has been used to determine the projected population shares for the Midlands and North regions.

National Infrastructure Commission
Finlaison House
15-17 Furnival Street
London
EC4A 1AB
@NatInfraCom

 [nic.org.uk](https://www.nic.org.uk)

 [NatInfraCom](https://twitter.com/NatInfraCom)

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