London's Infrastructure:
Investing For Growth

LONDON FIRST

Foreword

London is a leading world city – and to my mind, the best city in the world in which to do business.

The projected growth in population from 8.6 million today to 10 million people in the mid-2030s suggests I'm not alone in thinking that.

But in the debate about London's future there is sometimes a tendency to see this projected growth as a problem or a challenge – when we should be seeing it for the fantastic opportunity it is.

In the period following the Second World War, we made a conscious choice not to grow London and instead planned for its decline; an approach that was to the detriment of the UK as a whole.

We need to embrace London's future growth, not shy away from it. In particular we need to invest in the transport, housing and wider infrastructure critical to making the capital a great place to live, work and visit.

This requires London government to develop an effective and well-governed infrastructure programme for the capital; one that is unashamedly focused on those projects that will drive enhanced productivity, competitiveness and economic growth.

The programme needs to have a long-term horizon, but also to be responsive to the changing circumstances and needs of London's economy. And it needs to be funded. This report argues that investment in London will pay for itself.

So as we approach a general election – and in London next year a Mayoral election – we need our political leaders to act on the conclusions set out in this report from London business, and to go for growth.

Holding London back will hold back the UK as a whole. Enabling growth in the capital will help maximise our national economic potential, delivering jobs and opportunity for the entire country.

Finally, I would like to thank the members of our working group - and particularly Chris Grigg, our Chairman - for their thoughtful, timely and constructive contributions throughout.

John Dickie

Director of Strategy & Policy, London First
March 2015

Executive Summary

London has the potential to grow further and faster

London is a unique global hub for talent, business, finance and global visitors. It is a very productive city, with the highest Gross Domestic Product (GDP) per capita in the European Union. The recently published economic development agenda **(London 2036: an agenda for jobs and growth** [1]**)** sets out how the city is well placed to continue to grow in a changing global economy.

The projected demographic growth of London to a city of 10 million people by the early 2030s is testimony to the capital's continued attractiveness as a world city. Yet as it grows, the infrastructure that enables the city to function comes under greater strain. A legacy of historic underinvestment compounds the problem.

If a growing London is to fulfil its economic potential for the UK as a whole and maintain its competitive advantage globally, it needs investment in its housing and its infrastructure, much of which is already operating at, or near, its limits. London now urgently needs a comprehensive long term infrastructure plan, with priorities and funding developed and agreed with input from government, business and the wider population.

London's growth is good for the UK

London's success is of benefit to the UK at large. As a global business hub, London serves the country as the principal location for corporate headquarters. It is the UK's international gateway for talent, tourists and investment. Construction and infrastructure spend on London projects directly benefits many parts of the rest of the country. London also makes a significant net contribution to the UK's overall tax revenues: £34 billion in 2013/14 alone.

London can only play this critical role for the country as a whole if it remains in the top tier of world cities. The quality and quantity of its housing and wider infrastructure plays a key role in maintaining and developing London's competitive advantage.

Infrastructure plays a key role in driving economic growth

Infrastructure's critical role in supporting economic growth is now widely recognised by policymakers and politicians alike. Analysis by the International Monetary Fund (IMF) has shown that "in a sample of advanced economies, a 1 percentage point of GDP increase in investment spending increases the level of output by about 0.4% in the same year and by 1.5% four years after the increase".

Fulfilling London's growth potential would bring significant benefits to London and the UK. Illustrative modelling undertaken by KPMG for this report suggests that if infrastructure investment enabled an increase in London's GVA growth rate from the historic trend of 2.5% to 3.5%, this would yield an additional £1.9 trillion to the economy in present value terms. Of this, around £650 billion would be raised in additional taxation alone.

1. London First and the London Enterprise Panel, 'London 2036: an agenda for jobs and growth' (2014), available at http://londonfirst.co.uk/wp-content/uploads/2015/01/London-First-Report_FINAL_e-version.pdf

This should be seen in the context of the cost of additional infrastructure in London for the period to 2050. Work by Arup for the Greater London Authority (GLA) estimates this as equivalent to £750 billion, again in present value terms. Based on this, investing in London's infrastructure could generate around £2.50 for every pound spent. It is important to note that a large proportion of the overall costs will be financed by the private sector, and so the actual bill falling on the public purse will be significantly lower – and well below the value of additional tax receipts generated.

Of course, investment alone does not guarantee growth. But given the scale of these estimates, the business case for investing in London's infrastructure to enable greater economic growth is strong. Without this investment, London will create fewer jobs, see lower growth and generate lower tax receipts. The city will become less attractive as a place to visit, live or work, public dissatisfaction will rise and London's international competitiveness will, over time, decline.

London now needs an Infrastructure Plan and the funding to pay for it

Effective infrastructure delivery requires two things. First, London needs an agreed plan which identifies and prioritises future infrastructure need across sectors. This requires a process which engages the wide variety of infrastructure providers and the public, and through which the long list of desirable projects is turned into a prioritised and integrated programme. While there are also important social and environmental objectives, the governing criteria for this process should be to drive enhanced productivity, competitiveness and economic growth. Focussing the programme in this way is essential as this generates the additional value and revenues which support sustained investment in both London and the wider UK and helps to pay for the delivery of broader objectives.

Second, there needs to be the long-term funding and financing to pay for that infrastructure. Remarkably, London has very limited capacity to self-invest. It has much lower levels of fiscal and political autonomy than other great international cities and is more dependent for funding on central government.

The GLA has taken positive steps with its draft London infrastructure plan 2050

The Mayor of London has taken a big step forward in planning for growth with the publication of the GLA's London Infrastructure Plan 2050. It identifies a range of infrastructure priorities for London, from new energy, water and sewerage infrastructure, to enhanced digital connectivity and new Tube, rail and road schemes.

Some of the investment is provided by the private sector, through the privatised utilities. This has generally worked well in London, although business is particularly concerned at the lack of capacity in digital infrastructure. The take-up of high speed broadband by business is low compared to other world cities; and just over 10% of premises cannot access superfast broadband in the first place, with these "not spots" particularly prevalent in the City of London and Tech City. Business sees these as priority areas for action by the Mayor.

Transport and housing represent the bulk of the costs, and most of the transport investment (and some of the housing investment) is undertaken by the public sector. We therefore see transport investment – and the way it is used to complement and drive housing growth – as a key area where political commitment to greater investment is required.

Funding is the key challenge

For transport investment, the biggest challenge is funding: paying investment back over time. Transport for London (TfL) incurs most of the costs and the benefits are widely spread across society, although some are captured in increased tax take by government. TfL needs **both greater certainty** over its future funding streams, and for **these to be higher**, if it is to meet the city's transport needs.

Meeting this challenge requires additional action

As London businesses, our main focus is on achieving the outcome – sustained investment in London's infrastructure – to support economic growth. We are pragmatic about precisely how that is achieved.

Our immediate goal is to ensure that London's transport grant funding from central government is maintained, at least at planned levels, into the 2020s in this summer's forthcoming post-Election Spending Review. We are therefore encouraged by the Government's recent commitment in its long term economic plan for London to meet this through delivering £10 billion of new investment in London's transport over the next Parliament.

However, even this level of investment falls short of London's needs and should be seen as a floor rather than a ceiling. As the Government itself has acknowledged, London now needs to identify and plan the next big infrastructure investments after Crossrail, in the form of projects such as Crossrail 2.

To meet future investment needs, London must continue to utilise the various – albeit limited – revenue raising measures it already has discretion over (principally fares and charges, some taxes and developer contributions). But London will also need to innovate further, bringing together diverse funding streams with enhanced governance and accountability mechanisms.

Crossrail provides one good example of how this approach might work, with its funding flowing from national government (principally through grant), London government (principally through fares) and the private sector (through the business rate supplement and various forms of developer contribution). While the private sector has no formal role in the project's delivery and governance, its involvement was crucial both in developing a funding package and securing lasting cross-party support – and business certainly sees itself having an ongoing role in holding the Mayor and Department for Transport (DfT) to account for its successful delivery.

Separately, the Northern Line Extension to Battersea is largely being funded by the private sector through the long term retention of business rates and through value uplifts generated by redevelopment in the wider Battersea area. This income stream is supported by a government guarantee, with the project being delivered by TfL. Similarly, other UK cities have agreed 'City Deals' with HM Treasury whereby the proceeds of future growth are dedicated – alongside other forms of local contribution – to help fund infrastructure schemes that help stimulate additional economic activity.

Such approaches undoubtedly offer additional untapped potential for London in future. However, while we will continue to take a pragmatic approach to finding funding solutions, the downside of ad hoc deals like these is that such negotiations consume significant resources as local government goes 'cap in hand' to central government, project by project, seeking to secure relatively small amounts of funding.

Ultimately greater devolution of tax revenues would increase the capacity of London government to raise revenues locally and accountably; it would increase the certainty as well as range of funding streams; and, perhaps most importantly, it would strengthen the financial incentives for London and local government to take what are often locally difficult decisions over housing and infrastructure investment as they would see a greater share of the rewards. Such an alignment of incentives has strong potential to support higher levels of economic growth in the capital than would otherwise take place.

The next steps now required are:

- From the Mayor and GLA we seek leadership to translate its 2050 Infrastructure Plan into a prioritised and integrated housing and infrastructure investment programme, created in concert with central government, London business and other stakeholders, focused on driving higher economic growth.
- From central government – and from politicians of all parties – we seek action to support the sustained investment in London's infrastructure required to drive higher economic growth and thereby deliver wider policy objectives. This means not only maintaining London's transport grant funding at least at current levels into the 2020s in the forthcoming Spending Review; but going further by providing the additional funding, powers or other guarantees that will enable London to fully meet its growth potential and so benefit the rest of the UK.
- From the business community we seek recognition that it must play a part in funding the infrastructure that's needed; a willingness to speak with a coherent voice on priorities; and the ability to hold infrastructure providers to account as a quid pro quo for the funding provided.
- We now urge government to work constructively with London's civic and business leaders to deliver the infrastructure this great city needs.

Introduction

For much of the second half of the last century London planned for decline. The population fell, the capital's fabric was neglected and little new infrastructure built. With the abolition of the Greater London Council in 1986, London even lost its capacity for self-government. The past couple of decades have reversed these trends.

London's economy has grown rapidly and is typically at the top of competitiveness league tables, generating a significant fiscal surplus for the UK as a whole (an average net contribution of £12.7 billion annually over the last ten years). London's population is again growing. It is a highly productive city, with Inner London having the highest GDP per capita [2] of any region in the EU.

Economic growth has been driven by the entrepreneurialism of Londoners, past and present, rather than by some sort of grand plan. However it has been strongly supported by improvements in infrastructure. Successive waves of investment have renewed and enhanced London's infrastructure, in many cases stimulated by the restoration of London government and the creation of the office of the Mayor. By choosing to plan and invest in the infrastructure underpinning a modern world city, policymakers have enabled London's economy to thrive – to the benefit of both London and the UK as a whole.

With a projected 100,000 additional people every year, London now faces a stark choice. Do we plan to support jobs and economic growth – or, by failing to take the opportunity, effectively plan for decline?

This is no choice at all; London must now plan for its economic growth. Failing to do so will hold London back, along with the rest of the UK. This report sets out the case for doing so, and outlines next steps as to how this could be achieved.

2. In purchasing power parity. Source: Eurostat NUTS II data.

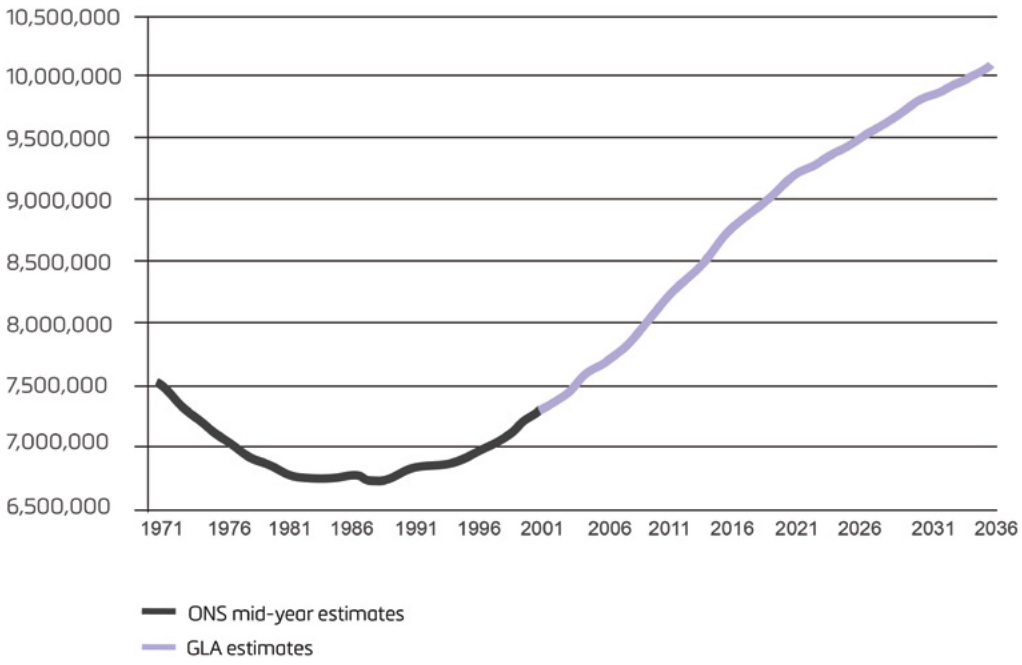
1 London's Population Growth

London's economic performance has been strong over recent years. The recently published London 2036: an agenda for jobs and growth [3] sets out how the city is well placed to continue to grow in a changing global economy. London has established a unique position as the global hub for talent, business, finance and global visitors; and has the opportunity to establish itself as the global capital for technology, creativity and entrepreneurship.

The projected growth of London to a city of 10 million people by the early 2030s is testimony to the capital's success as the city where global business can find talent and where global talent can find opportunity. Yet as cities grow the infrastructure, architecture and systems that enable them to function smoothly and remain cohesive come under greater strain.

London's population has now exceeded its 1939 peak of 8.6 million and the latest estimates from the GLA for London's spatial development plan suggest it will be above 10 million by 2036 (as illustrated in Chart 1 below).

Chart 1: London's population growth (1971–2036)

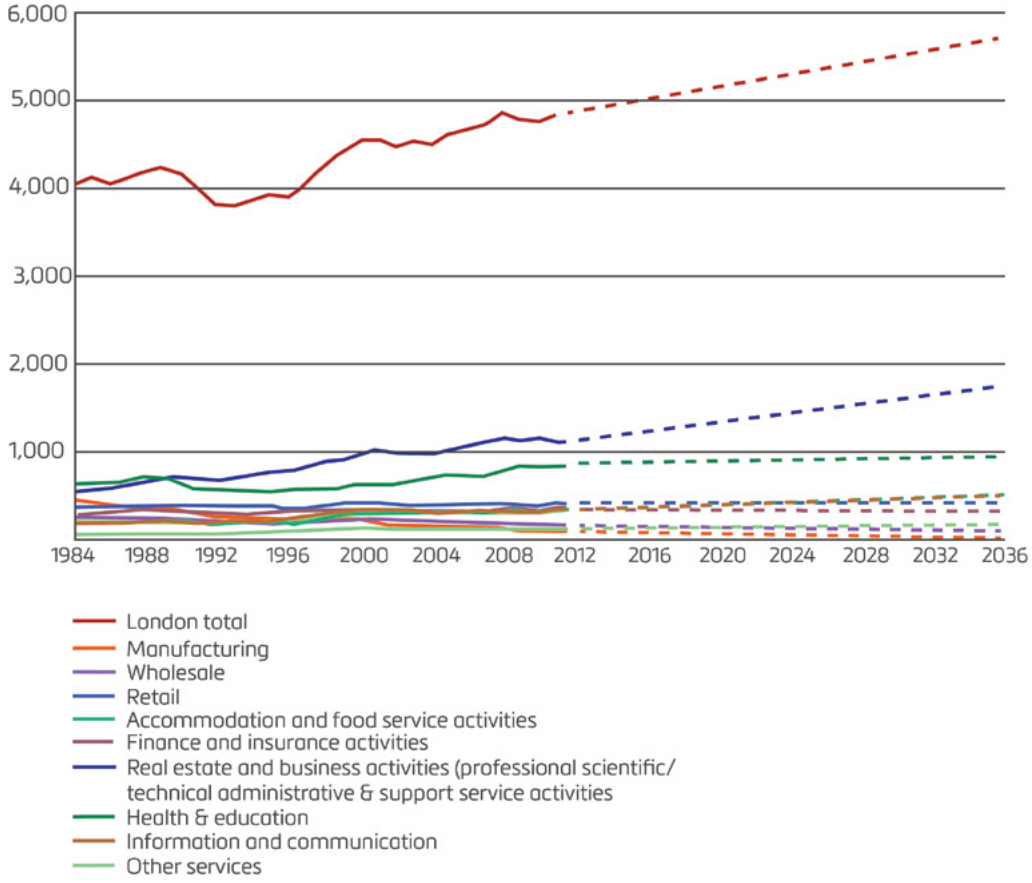


Source: Office for National Statistics mid-year estimates to 2001, GLA estimates 2002 to 2036

The pace of population growth in London is higher than that for the UK as a whole: 23% vs 15% between 2011 and 2036. Employment is predicted to rise rapidly over the period to 2036, from 4,896,000 in 2011 to 5,757,000 in 2036, as shown in Chart 2 below.

3. London First and the London Enterprise Panel, 'London 2036: an agenda for jobs and growth' (2014), available at http://londonfirst.co.uk/wp-content/uploads/2015/01/London-First-Report_FINAL_e-version.pdf

Chart 2: London's employment growth



Source: GLA, Further Alterations to the London Plan 2014, Consultation draft

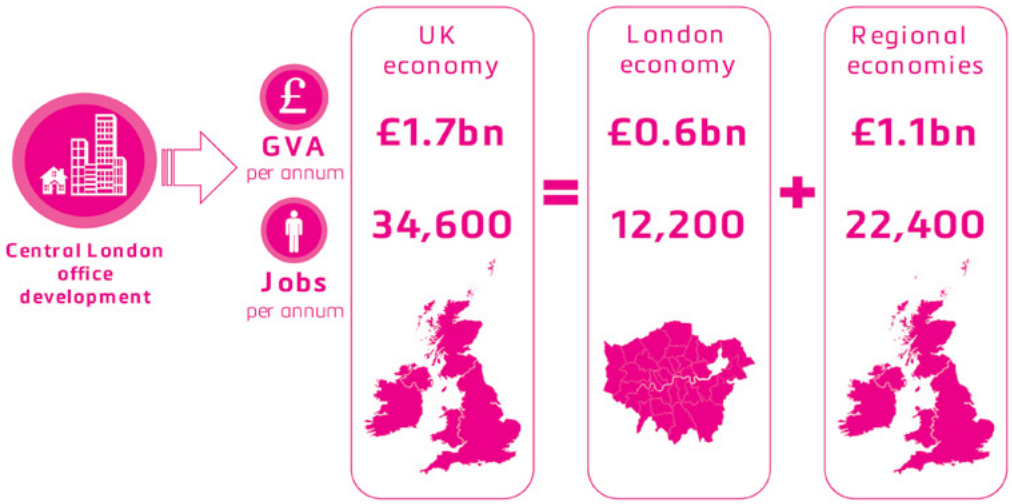
London will only be able to achieve its full potential if its infrastructure is upgraded to cope with the rising population, spread the benefits to additional areas of the city and ensure rising costs do not put London's competitiveness at risk.

2 London's Growth is Good for The UK

London's economy is deeply intertwined with that of the rest of the country. As a global business hub, London serves the country as the principal location for corporate headquarters; as a gateway for international talent, tourists, and investment; and as the location for the provision of advanced services to many national industries. London and the rest of the UK play complementary roles in critical industry clusters such as life sciences and financial services, with two-thirds of the UK's employees in financial and professional services being located outside London.

The GLA estimates London's exports to the rest of the UK and the rest of the UK's exports to London to be around £300 billion each. Two-thirds (65%) of the Gross Value Added (GVA) and job creation stemming from Central London office development accrues to the rest of the UK, 35% to London (see Figure 1 below).

Figure 1: The annual economic contribution of central London office development

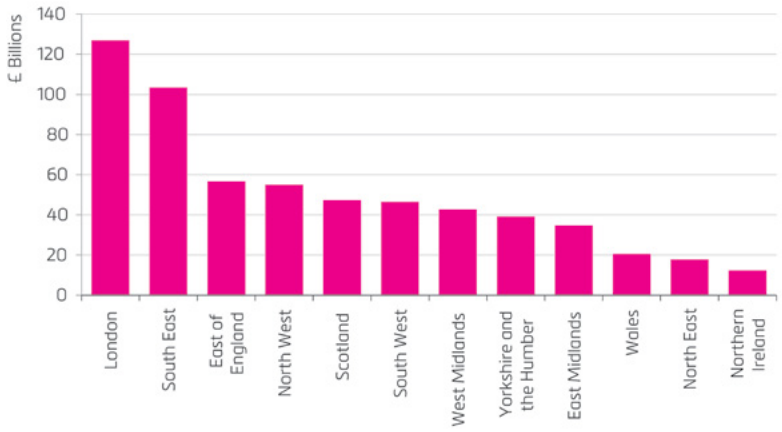


Source: PwC analysis for 'Building London, Building Britain: The economic impact of central London office construction

Much of the investment in London is footloose and global. If development does not take place in London, it will take place in our global competitors such as New York, Shanghai, Singapore or Dubai instead. In attracting such investment, London benefits the UK as a whole.

A further dimension to London's contribution to overall economic activity is the significant contribution made by London to the country's overall taxation revenues. Chart 3 below shows the split of taxation revenues by UK region.

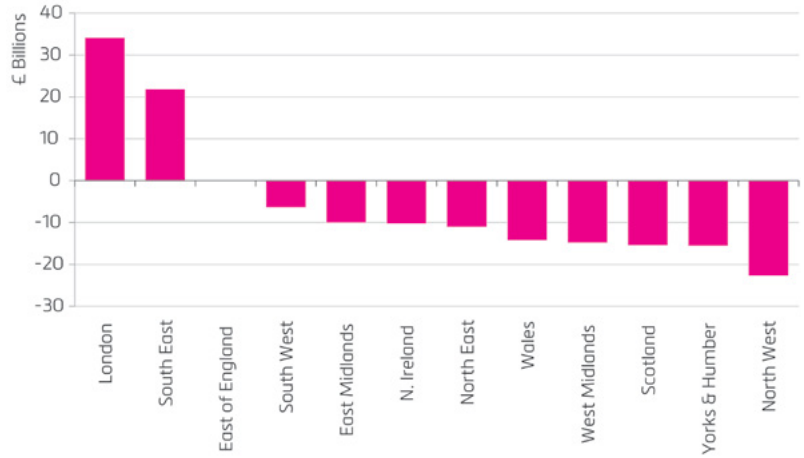
Chart 3: Estimated total tax revenues by UK region, 2013/14



Source: ONS, HM Treasury, Cebr analysis

The distribution of tax generation and public spending means that London, the South East and East of England are the only regions that run a fiscal surplus – thereby supporting the economies of other regions. Chart 4 shows the fiscal balance by UK region, with London generating an estimated surplus of £34 billion in 2013/14.

Chart 4: Estimated fiscal balance by UK region, 2013/14



Source: ONS, HM Treasury, Cebr analysis

Analysis in the GLA's Growing Together report [4] confirms that when London's economy performs well, the national economy tends to perform well and vice versa. However, over the recent past, growth in London has been, on average, higher than growth in the rest of the UK, and the UK's major cities – outside the South-East have experienced less strong performance than their counterparts in other European countries such as France and Germany.

There are a range of ways in which city-regions across the UK can collaborate to improve performance: a critical enabler of such collaboration is, of course, stronger transport links between London and the other city-regions; and within city-regions. It is not a question of whether we invest in London or in other cities. For the UK as a whole to grow we must do both.

4. GLA Economics, 'Growing Together II: London and the UK Economy' (2014), available at http://www.london.gov.uk/sites/default/files/Growing%20Together%202%20Final_1.pdf

The Role of Infrastructure in Fostering Growth

Infrastructure's role in supporting economic growth is now widely recognised, including by HM Treasury, which stated in 2013 that "infrastructure can play a vital role in driving economic growth and is essential for future prosperity" [5]. Analysis by the IMF has shown that "in a sample of advanced economies, a 1 percentage point of GDP increase in investment spending increases the level of output by about 0.4% in the same year and by 1.5% four years after the increase" [6].

Infrastructure contributes to economic growth through two channels: directly through its contribution to aggregate output; and indirectly, through its impact on the productivity of other sectors (e.g. reducing transaction costs). Box 1 below summarises the findings of one recent study on the impact of infrastructure investment on the UK's economy.

Box 1: The impact of infrastructure investment on the UK economy

In the UK, the Civil Engineering Contractors Association commissioned the Centre for Economic and Business Research to measure the impact of infrastructure investment on the economy [7]. The analysis found that:

- For each 1,000 jobs that are directly created in infrastructure construction, employment as a whole rises by over 3,000 jobs;
- For each £1 billion increase in infrastructure investment, UK-wide GDP increases by a total of nearly £1.3 billion;
- Every £1 billion of infrastructure construction increases overall economic activity by over £2.8 billion;
- UK GDP could have been 5% higher, on average, each year between 2000 and 2010 if our infrastructure had matched that of other leading global economies.

London has made significant progress in having a plan that identifies future infrastructure needs across sectors with the publication of the GLA's London Infrastructure Plan 2050 8. The plan identifies a broad range of infrastructure priorities for London, from new energy, water and sewerage infrastructure, to enhanced digital connectivity and new tube, rail and road schemes. It attaches a total bill of £1.3 trillion (or £750 billion in present value terms, 2014 prices), with transport and housing representing the bulk of the costs.

In practice, much of the private utility infrastructure London requires is provided effectively by regulated infrastructure companies or through competitive markets, although there are some areas – notably energy and broadband infrastructure – where current provision could better support London's growth (see Boxes 2 and 3 below).

5. HM Treasury, 'National Infrastructure Plan' (2011), available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/188337/nip_2011.pdf
6. IMF, 'Is It Time for An Infrastructure Push? The Macroeconomic Effects of Public Investment' (2014), available at http://www.imf.org/external/pubs/ft/weo/2014/02/pdf/c3.pdf
7. Civil Engineering Contractors Association, 'Securing our economy: the case for infrastructure' (May 2013).
8. Mayor of London, 'London Infrastructure Plan 2050' (2014), available at https://www.london.gov.uk/sites/default/files/London%20Infrastructure%20Plan%202050%20%E2%80%93%20consultation%20document.pdf

Box 2: London's energy infrastructure

Developers can often struggle to get a timely connection to the electricity distribution network in London, particularly in central London where the network is highly utilised. Utility regulators presently do not need to take account of the city's forecast growth as set out in the Mayor's statutory transport, planning, housing and economic development strategies, which leads to ad hoc investments being made to the network to meet specific – as opposed to strategic – needs. These concerns have previously been taken up by London First and the City of London Corporation [9] and are now being pursued by the GLA with central Government and Ofgem. Ofgem is currently consulting stakeholders on ways to ensure quicker and more efficient distribution connections.

Box 3: London's broadband infrastructure

London has significant strengths in some aspects of digital connectivity. There is universal access to high-speed Ethernet connections (for those prepared to pay for them); broadband quality and reliability is high; and costs are low. However, just over 10% of premises cannot access superfast broadband at all – London's 'not spots'. Problematically, these are particularly prevalent in the City of London and Tech City. Plugging that latter gap could bring significant benefits – historic evidence suggests strong returns from digital investment in the past (doubling broadband speed increasing GDP by 0.3% on average in Organisation for Economic Co-operation and Development (OECD) nations from 2008 to 2010 [10]). Tackling this has been identified as a priority by the London Enterprise Panel through London 2036: an agenda for jobs and growth.

The bulk of the investment, and thus funding, London requires is in transport and housing. In common with other cities, most transport investment in London is undertaken by the public sector. Housing provision is more mixed: most new homes are provided by the private sector (including a considerable element of policy mandated social housing) but the state retains a role in directly funding and maintaining housing. Moreover, transport investments can have a critical role in determining the viability of areas for housing.

Transport and housing are also the infrastructure sectors on which London business concerns are focused. Housing is the fastest rising concern for businesses: today 73% of London's businesses think London's housing supply and costs are a significant risk to the capital's economic growth [11]. As London First identified in its recent report Home Truths [12], action is needed on a number of fronts if London is successfully to address its housing shortfall. The focus of this report is on transport, and transport's role as an enabler of new housing.

9. London First and City of London Corporation, 'Supporting UK growth while balancing the budget – a report from London business' (2009), available at http://londonfirst.co.uk/wp-content/uploads/2012/09/SupportingUKGrowth_WEB_FINAL.pdf
10. Rohman, I.K. and Bohlin, E. Does Broadband Speed Really Matter As a Driver of Economic Growth? Investigating OECD countries, Int. Journal of Management and Network Economics, 2(4), 336-356 (2012)
11. London First and Turner & Townsend, 'Moving out – how London's housing shortage is threatening the capital's competitiveness' (2014).
12. London First, 'Home Truths – 12 steps to solving London's housing crisis' (2014), available at http://londonfirst.co.uk/wp-content/uploads/2014/03/LF_HOUSING_REPORT.pdf

How transport infrastructure supports growth

Traditional methods of appraising potential transport investments have tended to focus on the welfare benefits to users from increasing capacity and reducing journey times. However a number of studies have concluded that improvements in transport could provide a more significant boost to economic output. HM Treasury's Eddington report [13] detailed a number of channels through which transport has impacts on the economy that conventional approaches failed to account for. These clustered around benefits to business and connectivity.

For business, there is a boost to efficiency, investment and innovation through connectivity improvements contributing to economic growth; direct savings leading to higher rates of investment (and hence productivity benefits); and interactions between firms and individuals allowing the sharing of new ideas. Businesses also benefit from access to a larger pool of talent, and individuals from a greater choice of jobs, leading to agglomeration and productivity benefits.

Enhanced connectivity allows businesses to trade over a wider area, access more suppliers and reach more potential customers. They can also offer consumers a greater choice of goods and services. Connectivity improvements can help reduce costs and barriers to trade, increasing domestic and international trading opportunities; and better domestic and international connectivity can be important in attracting, retaining and expanding globally mobile business activity in the UK.

As a result, transport appraisal has increasingly sought to capture wider economic benefits. One of the earliest applications of this revised approach was in developing the case for Crossrail in 2007, where the measurement of wider economic benefits (primarily through the link between agglomeration and productivity, as well as themove to more productive jobs in London's central activities zone) resulted in the original benefit-cost ratio (BCR) rising from 1.9 to a range of 3.1 to 7 [14] when wider economic benefits were included.

A DfT report published in December 2014 [15] acknowledged that transport investment has wider impacts beyond user benefits, specifically on productivity, investment and employment. A key challenge for policy and decision makers in cities like London is therefore to develop appraisal and investment prioritisation tools that consider the 'real economy' impacts of proposed interventions, combining infrastructure with wider land use and spatial development.

It is encouraging that this positive relationship between infrastructure investment and economic growth appears now to be recognised by policymakers and all of the main political parties. It is vital that this political consensus is now maintained and that the logic of this argument is now applied to London to enable investment in projects which will drive enhanced productivity, competitiveness and economic growth.

13. HM Treasury and Department for Transport, 'The Eddington Transport Study' (2006), available at http://webarchive.nationalarchives.gov.uk/20090104005813/http:/www.dft.gov.uk/about/strategy/transportstrategy/eddingtonstudy/
14. See the National Audit Office report at http://www.nao.org.uk/wp-content/uploads/2014/01/Crossrail.pdf
15. Anthony J. Venables, James Laird and Henry Overman for the Department for Transport, 'Transport investment and economic performance: implications for project appraisal' (2014), available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386126/TIEP_Report.pdf

4 The Benefits of Investing in London's Infrastructure

London is the most economically productive region in Europe; its population is growing rapidly; its infrastructure is coming under strain; and the role of infrastructure in supporting growth commands increasingly widespread academic, political and business support. Ideally, against this backdrop it would be possible to take a fully costed programme of infrastructure investments calibrated on maximising the city's economic growth; undertake a comprehensive cost benefit analysis; and determine how best to proceed.

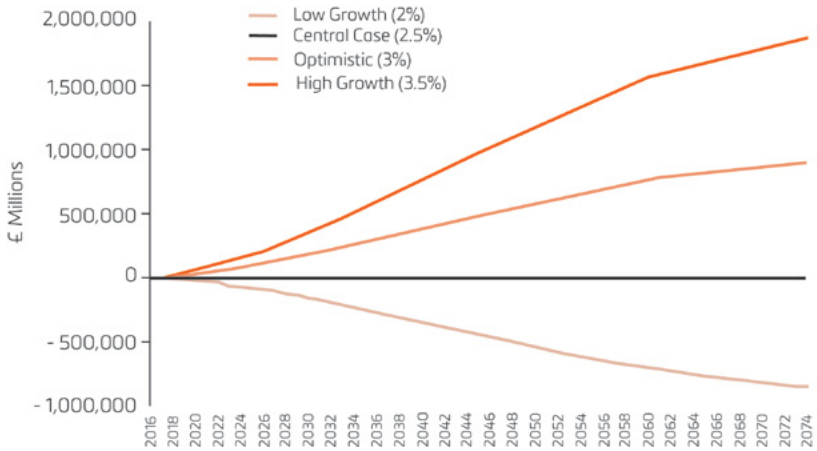
Unfortunately, reality is more complex. While the GLA has undertaken broad-brush estimates of the scale of investment required through to 2050 this is of a series of projects rather than a programme. As set out in the following chapter, a programme based on supporting growth needs to be established. However, even a well-constructed and robustly-prioritised programme is vulnerable to uncertainties over future impact: as set out above, while techniques to estimate the economic impact of infrastructure investment have improved, they are still inevitably estimates rather than certainties. Moreover, any cost benefit analyis has to weigh these uncertain benefits against – relatively – certain costs.

This report therefore takes a simple, primary colours, approach to estimating the impact that investing in London's infrastructure might have.

The GLA has produced a range of long-term economic projections [16] for London, with growth at 2.5% per annum as its central scenario, a similar level to that used by the Office for Budget Responsibility for the UK as a whole in its forecasts [17]. The GLA has then estimated that investment in the infrastructure identified in its 2050 Investment Plan could raise London's GVA growth by one percentage point to 3.5% per annum.

From the perspective of London business, there is no intervention more likely to enable economic growth than investment in infrastructure. Equally, underinvesting in infrastructure will constrain growth – perhaps below the trend rate. Chart 5 below illustrates the time profile of the incremental benefits (those below or above the central scenario) undiscounted over the 60 year period that is standard for major public infrastructure investments.

Chart 5: The benefits of investing in London's infrastructure



Source: KPMG work for London First

16. These scenarios are based on long-term trends in GVA and employment, rather than specific assumptions about infrastructure provision in London.
17. Office for Budget Responsibility, Economic and fiscal outlook, (Dec 2014).

Modelling undertaken by KPMG obtains a present value of the benefit/loss for each of these scenarios [18]. This is shown in Table 1 below.

Present value of economic benefits/costs, 2014 prices

Scenario	GVA Impact	Taxation Impact
Pessimistic (2%)	–£850 billion	–£300 billion
Optimistic (3%)	£900 billion	£320 billion
High Growth (3.5%)	£1,900 billion	£650 billion

This modelling suggests that if infrastructure investment enabled an increase in London's GVA growth rate from the historic trend of 2.5% to 3.5%, this would yield an additional £1.9 trillion to the economy in 2014 present value. Additional tax receipts, based on HM Treasury retaining 35 pence in every pound of GVA, would amount to around £650 billion of this sum over the same period.

Arup have estimated the cost of the proposed interventions in the GLA's 2050 Infrastructure Plan – as yet unprioritised in a growth maximising programme – at £750 billion in 2014 present value terms (the equivalent of the central estimate of £1.3 trillion in nominal terms from their report to the GLA [19]).

Comparing these two figures suggests that the investments set out in the plan would, in aggregate, generate approximately £2.50 for every £1 spent. This estimate is congruent with the calculated cost/benefit of Crossrail, once wider economic benefits are included. Such returns provide high value for money for public investment, given that projects usually need to generate £2 for every £1 spent to be considered for investment.

Importantly, given that the cost of only part of the plan falls on the public sector, the amount of public investment required is below the increase in the taxation that government would receive were the 2050 plan to be implemented in full.

Of course investment alone does not guarantee growth. But given the scale of these estimates, the business case for investing in London's infrastructure to enable greater economic growth is strong. Without this investment London will create fewer jobs, see lower growth and generate lower tax receipts. The city will become less attractive as a place to visit, live or work, public dissatisfaction will rise and London's international competitiveness will, over time, decline.

18. The construction of the proposed interventions in the Plan starts in 2015 and is completed in 2050, where the phasing is divided equally across the period. In the same way, the benefits accrue as per the phasing and are then fully realised in 2050. As per the standard guidelines for major public sector infrastructure investments, the benefits are estimated over a 60 year period and discounted by the HM Treasury rate. As the schemes in the 2050 Plan are yet to be specified, these results can only be indicative.
19. Arup for the GLA, the cost of London's long-term infrastructure, (July 2014). https://www.london.gov.uk/sites/default/files/The%20cost%20of%20London%27s%20long-term%20infrastructure%20by%20Arup.pdf

Developing an Infrastructure Investment Programme for London

If London's 2050 Infrastructure Plan were fully realised it would mark a step-change in investment, increasing capital investment as a percentage of GVA to 8% during the mid-2020s, compared to around 5.5% of GVA now. [20]

This emphasises the need for the GLA to now manage the cost of its future infrastructure through creating a structure and process which will turn the long list of desirable projects into a prioritised and integrated investment programme, with the governing criterion being those which drive enhanced productivity, competitiveness and economic growth. Focusing the programme in this way is essential as this generates the revenue which supports future investment in both London and the wider UK.

Moving from a plan to a programme

This prioritisation process is particularly critical for those sectors most reliant on public investment, namely transport and its interaction with housing development. The GLA's plan identifies a long list of transport projects to 2050. The GLA therefore needs to develop and set out a clear and robust process for project prioritisation to ensure that scarce resources are used to maximum economic effect. This prioritisation work should be done in preparation for the next Spending Review, and revised following its conclusions.

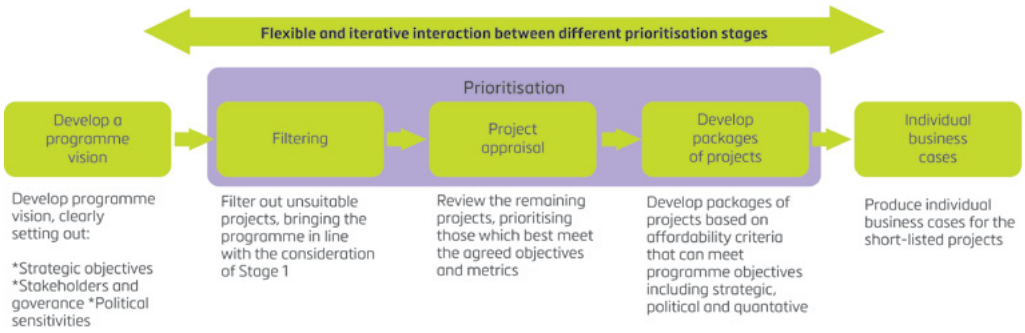
The need for such an approach was reinforced in last year's Autumn Statement which offered TfL further support to develop the business case for Crossrail 2, while emphasising the need to place this project in the context of other potential projects and a wider investment programme:

"The Government will provide £2 million between 2014-15 and 2015-16 to support the development of a comprehensive business case produced jointly by DfT and Transport for London, to complete ahead of the next Spending Review. This will be combined with a full options appraisal of all potential major transport projects in London, including an extension of the Bakerloo Line to improve connectivity in south-east London, and the devolution of South Eastern rail services to London."

Drawing on recent experience in London, other UK cities and globally, we set out below some ideas on an enhanced prioritisation process for the GLA to create a deliverable and properly integrated infrastructure investment programme (Annex 1 offers some reflections on the lessons to be drawn from the recent experience of UK cities in developing infrastructure programmes and funds). Figure 2 below provides an illustration of what this process may look like. The key features are discussed below.

20. Arup, ibid.

Figure 2: From plan to programme



Programme development and vision

The first stage is crucial in that it involves clearly articulating the strategic objectives and vision for the city, including the assessment of need. The 2050 London Infrastructure Plan already covers much of this ground, including forecast population and employment growth. The purpose of articulating the strategic aims of the programme is to also link this to the metrics that will be used to measure the impact of projects, such as those related to the economy, environment or distribution of benefits spatially or to deprived communities.

The other key aspect of this stage is that the governance and delivery structures are clearly set out by the GLA. For example, what precisely will be the role of the GLA's embryonic Infrastructure Delivery Board in securing more efficient, integrated and innovative infrastructure solutions for London? Will it essentially be a forum for stakeholder engagement? If so, where will responsibility for delivery sit? Is there a role for independent oversight to monitor and evaluate performance against agreed metrics?

Finally, the design of the programme will necessarily have to take into account the political sensitivities of Greater London. Individual boroughs will, for example, need to understand how the programme as a whole will benefit them, even where individual schemes may not.

Filtering, appraisal and package development

The second, third and fourth stages of the prioritisation process are where most of the qualitative and quantitative analytical work should be conducted. To start with, an initial high level sifting process against key criteria could take place, such as the likely deliverability of the proposed projects and the risks associated with them.

The third stage has two key elements: the development of a set of measurement metrics that relate directly to strategic objectives (a common metric used by a number of other cities, such as Manchester and Glasgow, is GVA per pound of net whole life cost to the fund – see Annex 1 for further details); and the development of a quantitative model that can measure these impacts. London already has a suite of models, such as TfL's transport appraisal suites and its land use model. Moving to a programme approach from one focused on individual projects may demand further refinement of such models. They are a critical component of being able to prioritise on a consistent basis.

The key output from stage three is a set of ranked projects based on their economic impacts against their net whole life cost to the fund. This could now provide a shortlist of projects that can be developed into programme packages and tested in stage four.

Linking projects into integrated packages allows testing against each other as one single programme, where complementarities or adverse impacts can be picked up. For example, a road project that may score well as a single intervention, might actually turn out to have adverse impacts on another good road project through causing congestion on parts of the network. Conversely, a public transport project may enhance a housing intervention, making their joint impact stronger than their individual benefits. We see particular potential for improving integration between the planning of new transport and housing schemes (see Box 4 below on Crossrail 2).

Second, testing packages of projects could allow for the introduction of secondary programme criteria. For example, the assessment in the previous stage is unlikely to involve more than one or two metrics, such as GVA and jobs. However, at the programme level, it is possible to include secondary metrics, such as the distribution of benefits spatially or to deprived groups since it is unlikely that a single project will reflect these types of criteria comprehensively.

The last stage of the prioritisation process involves developing the full business cases for the shortlisted projects that make it into the final programme. This is likely to be developed in line with the official guidance for each of the infrastructure sectors and should be compliant with HMT's Green Book for public sector interventions to ensure value for money for the taxpayer.

Any such process will need to remain appropriately flexible. The process will be iterative, and economic, funding and political contexts are all liable to change.

Box 4: Developing crossrail 2 as a transport and housing scheme

Crossrail 2 is a proposed new South-West – North-East rail line connecting Surrey to Hertfordshire via a central London tunnel between Wimbledon and Tottenham. The scheme was designed primarily to relieve growing congestion on key rail and tube lines, principally the south west train lines into Waterloo and the Victoria, Northern and Piccadilly lines. Previous work by London First has identified a strong business case for the scheme. [21]

Increasing attention is now being paid to the project's potential also to support additional housing and other development along the route. The Mayor has stated that Crossrail 2 could support up to 200,000 additional houses along the line of route – a potentially significant contribution to London's current housing shortfall. Generating additional land and property value along the route could also help fund the scheme, if these value uplifts can be captured and recycled towards the project.

However, such potential will only be realised if London and local government puts in place planning policies to allow greater densification and intensification of development along the route, the reuse of land designated for industrial use and new development on greenfield land. Large scale development along the route will also require complementary infrastructure investments to be made, for example in local roads, schools and amenities.

21. London First, Funding Crossrail 2: a report from London First's Crossrail 2 Task Force, (February 2014). http://londonfirst.co.uk/wp-content/uploads/2014/02/LF_CROSSRAIL2_REPORT_2014_Single_Pages.pdf

Paying for London's Infrastructure

As set out above, much of London's infrastructure is provided by the private sector, whether on a regulated or competitive basis, and funded by charges on users. The greater challenge is how to fund and finance the infrastructure – principally transport – which is provided by the public sector.

As we have seen, the high level business case for investing in transport infrastructure in London is strong. Yet the costs of delivering this new infrastructure are concentrated, often on TfL, while the benefits are widely spread across society. Moreover, this investment needs to take place at a time when the public finances are under stress and London government's own ability to finance investment is limited.

London has remarkably limited capacity to self-invest. It has much lower levels of fiscal and political autonomy than other great international cities and is more dependent for funding on central government. 74% of GLA and borough expenditure is funded from intergovernmental transfers, compared to equivalent figures of 31% in New York and 18% in Paris. This has helped give Paris the capacity to develop a long-term transport plan which contains multiple schemes with committed funding through to 2030.

By contrast, London remains reliant on central government grant funding for transport investment, as agreed with HM Treasury and DfT through periodic spending reviews. TfL's current spending settlement, agreed in summer 2013, provides a firm funding agreement up to 2015/16 and a long-term funding guideline to 2020/21 – which is subject to review.

TfL now needs both greater certainty over its future funding streams, and for these to be higher, if it is to meet the city's transport needs.

What London business wants

As London businesses, our main focus is on achieving the outcome – sustained investment in London's infrastructure to support economic growth. We are pragmatic about precisely how that is achieved.

Our immediate goal is to ensure that London's transport grant funding from central government is maintained at least at planned levels into the 2020s in this summer's forthcoming post-Election Spending Review. We are therefore encouraged by the government's recent commitment in its long term economic plan for London to meet this through delivering £10 billion of new investment in London's transport over the next Parliament.

However, even this level of investment falls short of London's needs and should be seen as a floor rather than a ceiling. As the Government itself has acknowledged, London now needs to identify and plan the next big infrastructure investments after Crossrail – in the form of projects such as Crossrail 2.

To meet future investment needs, London must continue to utilise the various, albeit limited, revenue raising measures it already has discretion over (principally fares and charges, some taxes and developer contributions). But London will also need to innovate further, bringing together diverse funding streams with enhanced governance and accountability mechanisms.

The potential of these various funding routes for supporting future transport investment is explored further below.

Funding sources over which London government currently has some control

a) Fares and user charges

Nearly 80% of TfL's income comes from **fares.** [22] This income will rise in future, through a combination of higher utilisation of the network and new capacity coming on stream, as well as potentially through increased fare levels. Demand levels are such in London and the South-East that new transport schemes tend to generate a healthy farebox. In the case of Crossrail 2, it was recently estimated that around 20% of the project funding requirement could be met using finance raised against the operating surplus. [23]

TfL's current business plan forecasts annual fare increases of RPI + 1% until March 2021. Given the significance of fares in total transport funding, any changes to this assumption will have a major impact on available funding. Additional fares income could potentially make a material contribution towards future transport investment, though commuter and political sensitivities are likely to limit the extent to which this is realisable in practice.

In addition, **new user charges** relating to roads (especially new bridges & tunnels) could also provide additional funding. TfL is currently proposing to pay for construction of a new river crossing at Silvertown through tolling of the new tunnel and the existing crossing at Blackwall. Again, user and political sensitivity is likely to limit the extent to which these mechanisms can be deployed in practice.

b) Taxation

The existing **business rates supplement (BRS)**, levied at 2p in the £ of rateable value, is collected by London Boroughs on behalf of the GLA and is currently generating approximately £225 million per annum. This is currently used entirely to repay debt raised to construct Crossrail. One option would be to continue with the existing Crossrail 1 BRS, which is due to expire in the early 2030s once debt incurred to pay for construction has been paid off. In the case of Crossrail 2, it was recently estimated that using the BRS in this way could provide 15% of the project funding requirement [24] – though of course the precise sum depends on when the revenues are needed for construction. Once used in this way the BRS could not be used for any other project.

A contribution towards London's future infrastructure needs could potentially be sought from all Londoners via their **council tax** bills, as was used to help fund the London Olympics. The GLA Olympics Games precept is levied on residential properties across London and is due to come to an end in 2016/17. The precept amounts to £20 for a Band D property, whose average council tax would be around £1,300. In principle, there could be a similar precept in the future for either a specific project or an infrastructure investment programme as a whole.

22. Transport for London, Annual Report and Statement of Accounts (2013/14), available at http://www.tfl.gov.uk/cdn/static/cms/documents/annual-report-2013-14.pdf
23. PwC, Crossrail 2 Funding and financing study, (November 2014). https://www.pwc.co.uk/en_UK/uk/capital-projects-infrastructure/assets/crossrail-2-funding-and-financing-study.pdf
24. PwC ibid

There are, of course, a range of **other possible taxes** which could in theory provide additional funding, though these may have wider practical, equity or competitiveness issues. For example, Arup identified potential contributions from motoring duty and hotel taxes, though London government currently has no ability to levy either of these.

c) Third party contributions and sponsorship

Despite **third party contributions** being actively sought for Crossrail 1, negotiations only managed to provide approximately 3–4% of capital funding for the project.[25] This is a level of contribution typical for UK transport projects. A number of key landowners were identified as potential contributors, each with differing conditions attached to their involvement. For example, Canary Wharf Group contributed towards building the station box in return for the right to develop above the Canary Wharf station. Heathrow Airport originally committed to a contribution of £230 million for Crossrail. However, this amount was substantially reduced to £70 million due to a change in its regulatory settlement.

Another possible funding source is **sponsorship**, for example Barclays', now Santander's, sponsorship of London's cycle hire scheme, or Emirates' sponsorship of the cable car linking Greenwich Peninsula and the Royal Docks. Santander recently agreed a £47.5 million seven year deal with TfL for the cycle hire scheme, while Emirates contributed £36 million for a 10 year sponsorship of the cable car. Both corporate contributions and sponsorship are likely to lend themselves more towards specific projects than programme-level funding, and are likely to make a relatively marginal contribution overall.

d) Capturing value uplifts

One source of funding that has gained traction in recent years is the various mechanisms used to capture value uplifts accruing to private sector developers and land owners. A growing body of evidence shows that large transport schemes, such as Crossrail, can have a significant effect on land value. A recent report by GVA estimated that Crossrail will lead to an uplift of 10% in commercial property values and 20–25% in residential capital values around stations on the route. [26]

Capturing a proportion of this value can be done in a variety of ways – through taxation in the form of Stamp Duty Land Tax or a Business Rates Supplement, as well as through developer contributions including section 106 and Community Infrastructure Levies (CIL) – both at the Borough and Mayoral levels. Developer contributions formed part of the funding packages for both Crossrail 1 and the Northern Line Extension.

Developer contributions are fundamentally project-specific and are harder to justify at a programme level since the beneficiaries of a specific project can easily be identified. They clearly have a role in future funding, though a number of drawbacks exist. A CIL can be a volatile source of funding as income is linked to new developments in London, which are dependent on the economic cycle. It is also important to consider the size of any potential CIL, so as to not affect the viability of potential developments. As with the BRS, a Mayoral CIL will not be an available source of funding for a number of years as the first £300 million has been allocated to Crossrail.

25. PwC ibid
26. GVA, 'Crossrail: Development Pipeline Study' (2014), available at http://74f85f59f39b887b696f-ab656259048fb92837ecc0ecbcf0c557.r23.cf3.rackcdn.com/assets/library/document/c/original/crossrail_development_pipeline_study.pdf

More generally, London government has a key role to play in maximising the overall value generated by future schemes through effective project prioritisation, better integrating transport and development and ensuring that planning constraints donot unduly hinder development opportunities (for example by enabling additional housing and other development to take place along the route of Crossrail 2 – as discussed earlier).

More innovative funding options

a) Tax increment finance (TIF) schemes

TIF schemes were developed in the United States of America (USA) and use future uplifts in tax revenues, resulting from additional infrastructure development, to help fund those projects. In 2012, the UK government established a number of Enterprise Zones (EZ), geographical areas with a range of incentives to help to build or grow businesses, including simplified planning and tax relief.

Gaining classification as an EZ can help fund infrastructure projects as additional business rates generated by firms locating in the zone are retained and reinvested in local economic growth for a period of typically 25 years. Enabling a greater share of business rate uplifts to be retained locally, through large scale EZ schemes such as at Battersea (see Box 5 below) is a significant opportunity.

Northern line extension

It was announced in the 2012 Autumn Statement that the Northern Line Extension (NLE) from Kennington to Battersea will be financed by up to £1 billion of borrowing from the Public Works Loan Board. However, no traditional grant funding will be provided for the project. The entire funding requirement, including interest costs, is expected to be met through £266 million (2012/13 prices) of developer contributions from section 106 and CIL and retained business rates via a new Enterprise Zone.

The Battersea EZ will include the regeneration area's key development sites, including Battersea Power Station and the new US Embassy. The zone is expected to be established from 2016 and stay in operation for 25 years. The Battersea EZ will differ from the existing 24 zones, as no additional incentives will be available to businesses. The zone is to be used purely as a funding mechanism for the NLE. A significant element of this is raised from Battersea Power Station, with other sites in Wandsworth and Lambeth, including the Sainsbury's development adjacent to the new Nine Elms tube station, also contributing.

The NLE is a good example of innovation in funding and financing transport infrastructure. A repayment guarantee will be provided through the UK Guarantees Scheme to minimise borrowing costs. Linked to this, HMT may offer an extension of the EZ by up to 5 years if required to repay debt. A Transport and Works Act Order (TWAO) was granted November 2014, and construction of the NLE is planned to commence in spring 2015.

One way for the government to support innovative schemes such as this is through the UK Guarantees Scheme, managed by Infrastructure UK (see Box 6 below).

The UK guarantees scheme

The UK Guarantees Scheme was announced in 2012 in order to progress UK infrastructure projects held back by adverse credit conditions. The Government has committed up to £40 billion in guarantees to remove barriers to private finance, with contractors charged a fee.

Guarantees are awarded via Infrastructure UK and are subject to a number of checks and eligibility criteria, including: national significance; financial credibility; readiness (construction within 12 months); dependence on the guarantee (project must be unlikely to proceed without intervention); and value for money (for the taxpayer). The structure of each guarantee will differ, with the Government having control over the scale, timing, risk exposure and relationship elements, depending on the need of the individual project.

As of April 2014, 40 projects were known to have passed the pre-qualification stage, worth £37 billion in total. Therefore, without an extension of the scheme, there are likely to be only a small number of additional projects that will qualify for a guarantee. A number of high profile guarantees have been awarded to date, including the Northern Line Extension to Battersea (£750 million), the Mersey Gateway Bridge (£257 million) and the Drax Power Station (£75 million). The scheme is open until 31 December 2016.

b) City Deals

The move towards fiscal devolution in the UK has so far focused on devolving spending powers to Scotland, Wales and Northern Ireland. Yet while significant progress on fiscal devolution to England's cities remains elusive, it is striking that HM Treasury increasingly accepts the underlying principle that cities are best placed to identify and drive those infrastructure investments that will best support their additional economic growth.

This is evident not only through Treasury support for the Northern Line Extension to Battersea, but also through its programme of City Deals whereby the proceeds of future growth are ringfenced and dedicated – alongside other forms of local contribution – to help fund infrastructure schemes that will help stimulate additional economic activity. (Further detail on the City Deals programme can be found in Annex 1).

In the absence of more systematic fiscal devolution we see scope for HM Treasury to apply these principles to a wider range of schemes in London so as to enable growth-stimulating infrastructure investment to go ahead. Given that Manchester's 'earn-back' deal was worth £30 million p.a., if pro-rated for the size of Greater London's economy, this would provide £180 million p.a. Assuming a 30 year deal at typical finance rates, this could support £2.7 billion of infrastructure investment.

Such approaches undoubtedly offer additional untapped potential for London in future. However, while we will continue to take a pragmatic approach to finding funding solutions, the downside of ad hoc deals like these is that such negotiations consume significant resources as local government goes 'cap in hand' to central government project by project seeking to secure relatively small amounts of funding.

c) Fiscal devolution

Compared to other countries, the UK remains heavily centralised, constraining policy and investment decisions at a local level. The London Finance Commission [27] recently concluded that London government should be given greater autonomy to invest in the capital's infrastructure, both to cater for the growth already forecast for its population and economy, and to promote additional economic growth. Specifically, the Commission proposed that the GLA borrowing ceilings be removed (while retaining prudential borrowing rules) and that property taxes should be devolved to London government. The yield of these taxes should be offset through corresponding reductions in grant to ensure a fiscally neutral position for the Exchequer, at the outset. Similar deals could be done for other major cities.

Ultimately greater devolution of tax revenues would increase the capacity of London government to raise revenues locally and accountably; it would increase the certainty as well as range of funding streams; and, perhaps most importantly, it would strengthen the financial incentives for London and local government to take what are often locally difficult decisions over housing and infrastructure investment as they would see a greater share of the rewards. Critically, such an alignment of incentives has strong potential to support growth in the capital above levels that would otherwise take place.

27. London Finance Commission, Raising the capital, (May 2013).

Conclusion

London will continue to be the place where business comes to find talent and talent comes to find opportunity. The question is whether we invest to maximise the private sector's potential – and the returns for HM Treasury – or risk a long term decline in the very real benefits that London delivers for the whole UK. Central and London government must now plan for London's economic growth.

London now needs an infrastructure plan and the funding to pay for it. This requires action from London and central government alike, as well as from business itself.

The next steps now required are:

- From the Mayor and GLA we seek leadership to translate its 2050 Infrastructure Plan into a prioritised and integrated housing and infrastructure investment programme, created in concert with central government, London business and other stakeholders, focused on driving higher economic growth.
- From central government – and from politicians of all parties – we seek action to support the sustained investment in London's infrastructure required to drive higher economic growth and thereby deliver wider policy objectives. This means not only maintaining London's transport grant funding at least at current levels into the 2020s in this summer's forthcoming spending review; but going further by providing the additional funding, powers or other guarantees that will enable London to fully meet its growth potential and so benefit the rest of the UK.
- From the business community we seek recognition that it must play a part in funding the infrastructure that's needed; a willingness to speak with a coherent voice on priorities; and the ability to hold infrastructure providers to account as a quid pro quo for the funding provided.

We now urge government to work constructively with London's civic and business leaders to deliver the infrastructure this great city needs.

Annex 1: Lessons From UK Cities' Experience in Developing Infrastructure Programmes

Cities outside of London, led by Greater Manchester (GM), have increasingly sought to develop integrated transport programmes. In early 2009, the ten districts of GM established the Greater Manchester Transport Fund (GMTF) to drive a step change in local economic performance. The initial fund of £1.5 billion was agreed by all 10 GM leaders, half of which was funded by the local authorities on a per capita basis in order to secure an additional £575 million of investment in its Metrolink network. This also secured incremental investments in: other Metrolink extensions; several relief road schemes; public transport interchanges; park and ride facilities; bus infrastructure; and local railway stations. This initial tranche of investment has been subsequently wrapped up into a total fund programme of some £2.1 billion. Key features of GM's fund approach are set out in Box 7 below.

Key features of Greater Manchester's transport fund

- Established, pre-agreed output measurement criteria, focussing on the impact of infrastructure on net increases in jobs and productivity at the city region level, with no credit given to 'pet' projects that do not measure up against these central objectives, or that simply move jobs around GM;
- A 'gateway' review process, which provides for a transparent and objective approach to decision making, with no individual district having a veto (as a result of qualified majority voting);
- A disciplined approach to programme governance and an associated reform programme, with strengthened local governance arrangements facilitated through the establishment of the new Greater Manchester Combined Authority and Transport for Greater Manchester Committee;
- Prioritisation based on forecast impacts on local jobs and productivity per pound of net whole life local costs, consideration of both legs of which results in the maximisation of economic benefits for a given level of local investment. GM's approach prioritises schemes subject to the overall investment package meeting social/distributional and environmental minima at a programme level;
- Local financial self-help through the use of incremental public transport net revenues and an agreed increment to the Transport for Greater Manchester Levy on the ten districts to support local borrowings; and
- Long-term external funding agreements, such as GM's £200 million indicative funding line for local major transport schemes to 2025 (re-established in January 2013).

GM's City Deal, which is linked to its Transport Fund, was announced in the 2012 UK Budget, and allows GM to 'earn back' its local GMTF contributions as improved city region economic performance, measured by jobs and productivity, is delivered. This is by way of a formula linked to changes in GM's GVA over time and the resulting addition to national UK Exchequer tax revenues. This has the potential to provide a 30-year revenue stream to GM for re-investment. GM secured this deal with Government because it offered:

- A measure of net job and productivity (GVA) growth at a sufficiently large level of geography (the whole of GM) that most of the displacement effects of individual schemes were netted out. The larger the geography, the more of its growth will feed through to improved national economic growth, and thus incremental UK Exchequer tax revenues;
- A commitment to reinvest all money earned back in further economically-prioritised schemes. This means that GM has to meet the full long-term revenue costs of its initial £1.2 billion, but in return it is able to sustain a rolling investment fund; and
- Provision of upfront money over and above central government funding that 'earns' the right to a share of the national tax benefits, the point being that this local 'self-help' generates national tax receipts that are genuinely additional for the UK Exchequer.

Elsewhere, the Glasgow City Region (GCR) reached agreement in principle with central government on a £1.13 billion infrastructure fund (GCRIF) that extends to transport, housing and regeneration programmes, making it the first such funding arrangement. The GCRIF is focused on delivering net GVA improvements at the whole of the fund's geography. It is expected to generate 29,000 jobs and unlock £3.3 billion of private sector investments.

Meanwhile, the Leeds City Region/West Yorkshire (WY) Fund, which now also includes York as an associate member, has followed a similar approach. As with GM this fund is focused on Transport, and is expected to involve some £1 billion of investment, of which the large majority will be locally contributed. As with the GMTF, the WY fund is focused principally on delivering net GVA improvements at the whole of the WY plus York geography (the five districts of WY plus York, a total population of some 2.5 million people). The programme to be delivered by the WY fund has been agreed with central government through the Growth Deals announced last year.

The fund approach is therefore typified by a combination of initial 'self-help' and the agreement of longer-term central funding agreements that allow the additionality of local funding to be measured, followed by the ability to 'earn back' local contributions when they generate additional national tax receipts, thereby creating a revolving investment fund.

There are some lessons for London from the development of these types of infrastructure funds, mostly around the idea of a revolving investment fund (such as in Manchester), and the focus of these funds on real economic outcomes and spreading benefits spatially. Important too is the requirement for strong governance structures that underpin these funds. In addition, the fact that these funds come under a 'payment-by-results' or 'earn-back' mechanisms mean that strong performance is crucial which heavily impact on the project prioritisation process.

However, while London suffers from similar inequalities in terms of wealth distribution, its overall economic output is of a different scale to these other places. The combined population of the northern city regions of Manchester, Liverpool, Newcastle, Sheffield and Leeds is just over 10 million, compared with 8.2 million in London. Meanwhile, London's current GVA is around £300 billion, or 22% of the UK's total, compared with some £175 billion in the five other city regions.

Unlike at least some of the other city regions in the UK, London is not therefore suffering from weak economic performance. Instead, its key policy targets should be maintaining its growth momentum, enhancing its competitiveness against its global competitors, boosting its growth further and spreading the benefits of growth more equally across the city's citizens.

Acknowledgements

We are extremely grateful to a steering group of London First members who provided expert advice and support throughout this project. The members of the group are listed below.

We are particularly grateful to KPMG for their supporting analysis throughout the report.

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The analysis and conclusions contained in this report are those of the London First steering group as a whole and no endorsement should be inferred from any one individual or organisation referred to above.

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