



LONDON TOMORROW

SHAPING FUTURE CITIES

LONDON'S FUTURE INFRASTRUCTURE: WHO PAYS AND HOW DO WE DELIVER?

An initiative by:

LONDON CHAMBER
COMMERCE AND INDUSTRY

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"Government and the Mayor of London are rightly seeking to attract more private investment in the capital. However sometimes processes related to these two political actors may, unintentionally, be responsible for affecting the pace of delivery of key London infrastructure projects.

"Research for London Tomorrow found that political uncertainty, planning red tape and costs associated with delivery all serve to stop the private sector investing in and delivering the critical infrastructure improvements our city needs to remain internationally competitive.

"To really improve the infrastructure of our city - not just roads and tubes, but schools, homes and digital connectivity as well - Government and the Mayor must make it easier for private investors to put their money into these projects. Government must continue to enable and actively channel private capital into London's infrastructure, and tackle barriers that may have hindered progress on developments in the past."

Colin Stanbridge, LCCI Chief Executive

ABOUT 'LONDON TOMORROW: SHAPING FUTURE CITIES'

London Tomorrow: Shaping Future Cities is a thought leadership initiative focused on the challenges and opportunities arising from the capital's growing population, with the aim of ensuring that London remains a successful global city. London Chamber of Commerce and Industry (LCCI) in association with EY and supported by London City Airport are organising several discussion events over this year with a panel of leading public policy and business figures. Leading UK polling agency, ComRes, has been commissioned to survey London public, business leaders and councillors ahead of each event.

The focus on London's future population comes as the number of those living in London has reached its highest level (8.6m) since 1939. The capital is in countdown towards the next election for the Mayor of London in May 2016. The four-year period of that new mayoralty should see important decisions taken to prepare London to accommodate the population of 2030 and beyond. Such decisions need to be underpinned by bold thinking.

At this gathering, participants were invited to **consider funding and delivery of London's future infrastructure**. The main obstacles

to progressing significant infrastructure development are often cited as 'funding' or 'planning'. However, the reality with regards to strategic infrastructure projects is that political indecisiveness plays a major role in whether privately or publically financed major projects get the go-ahead or not. A clear example has been political dithering over expansion of London's aviation capacity; Heathrow and Gatwick confirmed their proposed new runways would be privately financed, yet the process towards consent has lasted several years. Prolonged uncertainty over expansion plans may colour the perceptions of airport shareholders (including several foreign governments) about investing in UK major infrastructure.

All areas of infrastructure in London require significant investment – from tube and rail services into the capital to housing and digital connectivity infrastructure – to cater for today, let alone meet future population needs. How can London move with pace and certainty to secure the transport and housing infrastructure required for the city's workers, the broadband infrastructure demanded by London's companies and the utilities infrastructure needed by all?

SURVEY

LCCI commissioned leading polling agency ComRes to survey adults, businesses and councillors on 'London's future infrastructure'.

During May 2015 ComRes interviewed a total of 1,682 London adults online:

- 1,016 members of the London public
- 510 London business decision makers
- 156 London councillors

Any data reproduced from the polling should be fully referenced.

DISCUSSION

London Tomorrow panel members gathered for a private dinner to discuss the ComRes survey and offer observations about how to fund and deliver London's future infrastructure.

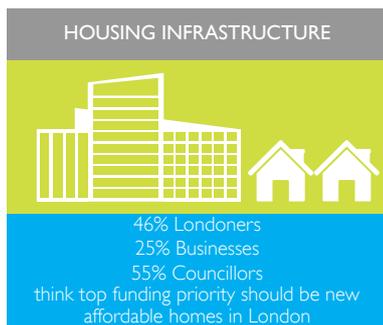
Panel members on 25 June 2015 were:

- Caroline Artis, EY
- Patrick Burrows, London City Airport
- Mark Gregory, EY
- Manish Gupta, EY
- Sean McKee, LCCI
- Kulveer Ranger, Imperial College
- Colin Stanbridge, LCCI
- Huw Thomas, Foster + Partners
- Nick Tolchard, Invesco Middle East
- Professor Tony Travers, LSE

Further details on London Tomorrow and its panel member profiles can be located at www.londonchamber.co.uk/londontomorrow

INFRASTRUCTURE PRIORITIES FOR LONDON

LONDON AS A MAJOR GLOBAL CITY
LONDON PERFORMS WORSE THAN EXPECTED IN ALL AREAS



Findings from the ComRes London infrastructure poll indicate that across all audiences, housing was the clear infrastructure priority for London. **Nearly half (46%) of Londoners stated that building new affordable homes was the most important**

infrastructure investment needed to sustain and stimulate London's economy. Similarly, a majority of London councillors (55%) ranked new affordable housing as London's most important infrastructure need.

London business leaders' priorities were more diffuse: while 25% ranked building new affordable housing as the main infrastructure required for the capital, **upgrades to rail and tube services (22%) and improving coverage of superfast broadband and mobile reception (22%)** were also ranked highly. London Tomorrow panellists were keen to point out that investment in digital infrastructure was increasingly important as faster and more reliable digital connectivity would drive the way in which businesses work in the near future.

Concerns over the availability of housing were more strongly observed when audiences were asked how they felt London's different infrastructure components performed in relation to their expectations of a major city. While London was seen to under perform in all areas tested (transport infrastructure, digital connectivity, airport capacity, utilities infrastructure and number of schools and colleges), housing performed worst of all, with **70% Londoners, 74% London business leaders and 87% councillors indicating that the capital performed worse than expected in terms of sufficient availability of homes.**

London Tomorrow panel members acknowledged the clear feeling among audiences that housing shortages were a major problem in London. Efforts to increase housing supply by the Mayor of London were being made through his Housing Strategy and the creation of the London Land Commission, which aims to support the development of 400,000 new homes by 2025 on brownfield and public sector land. Yet, it was felt that the **failure to build more houses in London was**

predominantly a regulatory issue. One participant noted that London had the necessary components to build more houses but still struggled to do so: "There is a limitless amount of private capital available and willing to invest in housing in London at a time when we have a housing shortage. Yet there are barriers, rather like those to developing an airport, which stop the creation of the extra housing that the city needs to cope with its rapidly rising population".

"TfL can stand up against any government organisation in the world in terms of what they've done for London's transport system – but they are not matched by other sectors. You don't get the same sort of thinking or drive in relation to housing, air pollution, energy provision, or anything else."

It was stated that London's unique system of governance – with strategic level control held by the Greater London Authority and the 33 London borough councils responsible for local delivery – was part of the regulatory blockade on the progress of housing projects and other infrastructure decisions. One panellist felt that the fine balance between managing city-wide priorities and the political impact of a large investment to an individual borough remained a constant source of tension.

For more housing to be delivered in London, panellists felt the capital had two options: either the GLA make tough decisions to force through the number of housing units the city requires (thus potentially causing ructions to their relationship with London borough councils), or a separate body could be created that has central responsibility for delivering the capital's housing needs, similar to TfL's mandate for London's transport network. Some of the London Mayoral candidates have already promoted the idea of a *Homes for Londoners* body that could oversee and deliver housing in the capital. Such a body could help remove the need for the GLA to have to force through projects to meet the capital's housing needs, ease the regulatory blockage on the progress of housing developments, and remove the political element from the decision making process. If a *Homes for Londoners* body is created, it should work closely with the London Land Commission to ensure surplus public land owned by London local authorities is swiftly brought into development, as well as encourage more small developers to enter the house building market in the capital to help fulfil the dramatic increase in new homes required to support future population growth.

The GLA should investigate the possibility of creating a separate Homes for Londoners body that is responsible for ensuring that more housing units in London are delivered to cater for the capital's rapidly growing population. Such a body should work closely with the established London Land Commission to swiftly drive development on the capital's surplus public land, particularly encouraging more small developers to enter the market and help meet house building targets through development on smaller plots of available land.

BARRIERS TO DELIVERY



While the previous section highlighted London's complicated governance structure as a factor in the delivery of London infrastructure, other factors also present a challenge. The ComRes polling for LCCI revealed that the **cost of projects was seen as a key barrier to the delivery of major infrastructure in London** (65% Londoners, 62% businesses and 63% councillors). The cost of projects present a major challenge, with the London Infrastructure Plan estimating that it would cost around £1.3 trillion to fund London's future infrastructure needs up to 2050.

Limited appetite from the Treasury to provide funding was also considered a major barrier across audiences (36% Londoners, 47% businesses and 63% councillors). London Tomorrow panel members noted that recent major public transport projects, such as Crossrail, had required a significant coalition of support to push the Treasury for their go-ahead. A similar coalition of support was beginning to gather for Crossrail 2, although it took many years for Crossrail to eventually get approval.

Nearly half (45%) of London business leaders said complicated planning restrictions were the main barrier to delivering London infrastructure. When asked about ways to encourage more private investment into London infrastructure projects, **45% of London businesses highlighted greater clarity around the potential political-decision making on major projects as a key incentive.** London Tomorrow panel members indicated that complicated planning restrictions and the political decision that leads to the eventual green or red light of major projects often go hand in hand. One panel member highlighted the political decision-making process as what ultimately decides whether a project goes ahead: *"Businesses might think that planning restrictions are the difficult part of the process but actually it is politicians that make the decision at the end of the day"*.

In November 2014, Mayor Boris Johnson convened the first gathering of the London Infrastructure Delivery Board in order to identify

barriers and improve the delivery of London's future infrastructure. The Board includes senior representatives from major industries such as utilities, transport and local government. While the Board is a welcome development, its impact thus far has been unclear. In addition, it was noted that Mayor Boris Johnson had himself called in for review several key planning applications since taking office in 2008. This includes more recently the Mayor's decision to overrule Newham Borough's approval of a £220m development at London City Airport.

One panel participant said that the capital would have to make some choices over which infrastructure projects to prioritise given that wage inflation in construction had increased dramatically in London. This meant that there could be a lack of supply of construction workers to deliver the infrastructure projects that London needs. LCCI has previously carried out research on construction skills shortages in London and the South East, with its findings indicating that there needs to be a 51% average increase in training provision to meet labour demand for construction projects between 2014-17.

"There are high expectations from investors on political certainty in the UK. Where the Government does not need to get involved directly in infrastructure projects, its role should be to provide long-term certainty that its policies will not change overnight".

Panel participants suggested that the role of Government should be to provide the certainty that private capital needs to make investments in London infrastructure. On certain projects where private investment has been difficult to attract, the Government could demonstrate stronger leadership that provides clarity and longer-term assurances to potential investors. Public transport projects in particular were cited as difficult for private investors to invest in as there is no commercial element involved and little return for investment. For such projects, it was felt the Government needed to play a leading role in either covering costs or covering the risk for the private market.

The Government should also provide greater clarity around the role that key political interests have in the planning process – this may provide more confidence to potential investors interested in investing in London infrastructure. As a first step, the Mayor of London could ask the London Infrastructure Delivery Board to provide concrete recommendations on the main impediments to the delivery of London's future infrastructure needs.

Government should provide greater clarity about its decision-making role during the approval process for infrastructure projects to provide greater confidence in the planning process and encourage more private investment into projects.

The London Infrastructure Delivery Board should develop concrete recommendations to address barriers to delivery of London infrastructure projects, as well as identify ways to attract more private investment into projects where funding has been notoriously difficult.

DELIVERING LONDON'S INFRASTRUCTURE

CROSSRAIL 2



36% Londoners
40% Businesses
60% Councillors
believe Crossrail 2 should
be funded through
Government grants

Polled audiences were divided on who should deliver certain infrastructure in London. There was strong support for central Government delivery of major projects such as Crossrail 2 (49% Londoners and 59% businesses) and increased airport capacity (58% Londoners, 74% businesses and 78% councillors), but private investors and businesses were seen as more

responsible for delivering improved coverage of superfast broadband and mobile reception (45% Londoners and 47% businesses). Delivery of new affordable housing was seen as mainly government's responsibility among all audiences (71% councillors stated it was local authorities' responsibility for delivery, 45% businesses believed central Government should take ownership, while Londoners were divided between local and central Government delivery). It is interesting to note that while audiences saw delivery of increased airport capacity, improved utilities and new affordable housing as some tier of government's responsibility, in reality it is primarily the private sector delivering such infrastructure, highlighting some skewed perceptions over how some projects are delivered.

Londoners, businesses and councillors were more in favour of a wider combination of methods to fund London's major infrastructure projects. While it was felt that central Government grants were key to funding projects such as Crossrail 2, private investment to some degree would be required to fund most of the other areas of infrastructure tested (superfast broadband coverage and mobile reception, new affordable housing, increased airport capacity, river crossings east of Tower Bridge).

Recent major infrastructure projects have seen Londoners contribute to their overall cost. Londoners contributed to the cost of the 2012 Olympic and Paralympic Games through a £20 Band D council tax precept, providing £625 million of funding. Similarly, proposals for the Thames Tideway Project could see Thames Water customers face increased annual charges of up to £80 per household. One participant stated that **if the public were able to see the direct benefit of what they are paying, then they might be more willing to pay for London's infrastructure.**

London Tomorrow panel members pointed out that there was a lot of private investment ready to be plunged into London infrastructure projects. While the UK was one of the most attractive markets for investment, with EY's 2015 UK Attractiveness Survey showing that the capital remained the most important location for foreign direct investment in the UK and Europe, there was a danger that much potential private investment could be lost to emerging markets: "A disproportionate amount of investment money that should be coming to London is going to emerging markets. Part of the reason is the willingness of emerging market governments to clear red tape, as well as more secure investment because of government backing".

It was felt among panellists that a degree of segmentation was required to differentiate between London infrastructure projects and their appeal to private capital. While commercial infrastructure projects

such as utilities and airports require little Government intervention and can be covered almost fully by private investment, public transport projects provided fewer returns for private investors and therefore require greater Government involvement to either cover the costs or cover the risks for the private market. However, the Northern Line Extension to Battersea was a unique example where funding for the project had been acquired through private capital used to develop the high-density housing and office retail development in Nine Elms. While borrowing for the transport extension would come from the public sector, funding to repay this public loan would come from the private sector in the form of developer contributions and incremental business rates, covering both the Extension and rebuilding of the power station.

Panel members suggested that one way to speed up the construction of Crossrail 2 and leverage private investment would be to ensure that the project delivers **a significant number of new homes across the route.** It was suggested that house building along the proposed Crossrail 2 route could be made the main objective of the project, with the Crossrail 2 line itself the additional benefit. Capturing the uplift in property values along the route was cited as a way to support funding of the project; previous research by CBRE has highlighted that residential property values around Crossrail stations had increased by around 20% above the underlying growth trend for London properties.

A feasibility study into funding Crossrail 2 by PwC indicated that developer contributions and incremental business rates, as used to fund the Northern Line Extension and Nine Elms development, could only raise a small proportion of the overall revenue needed to fund Crossrail 2. In addition, there is only limited scope for additional housing development around central London stations. However, other areas outside of Zone 1 (for instance, the Upper Lee Valley) along the route may present opportunities for more intensive housing development, which could help fulfil any significant house building targets assigned to the Crossrail 2 project. Developer contributions through the Community Infrastructure Levy and Section 106 arrangements could form part of the package of funding for the Crossrail 2 line.

The project may also present an opportunity for the Government to **trial devolving stamp duty land tax revenues to London as a way of capturing the stamp duty uplift from existing properties along the Crossrail 2 route and further contributing towards the funding of the project.** A previous London Tomorrow poll has shown that Londoners would strongly support greater fiscal devolution to London. Such a trial could be presented in a fiscally-neutral way to the Treasury by offsetting any proposed Government-grant allocation to the project. A successful trial could pave the way for the permanent devolution of property taxes to London and other cities in the UK as a funding mechanism for major infrastructure needs.

"We are in an era where there is a lot of private investment money available. But we are in a competitive market and this money has other places to go, whether it is emerging markets, or other cities around the world competing with London. I don't think we understand the opportunity cost of not capturing this investment right now and not delivering these projects".

London needs a mechanism to better direct private capital into infrastructure projects that have traditionally been difficult to attract investment. Major transport projects such as Crossrail 2 could be promoted as delivering a significant number of new affordable homes in order to speed up their funding and delivery.

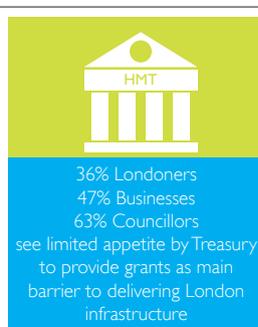
As part of Crossrail 2's funding package, the Government could trial devolving stamp duty land tax revenues from existing properties near the route to London in order to support funding for the project. A successful trial could enable further devolution of property taxes to fund major infrastructure needs in London and other UK cities.

SUMMARY OF RESULTS

INFRASTRUCTURE PRIORITIES IN LONDON



BARRIERS TO DELIVERING LONDON INFRASTRUCTURE



ENCOURAGING GREATER PRIVATE INVESTMENT



LONDON AS A MAJOR GLOBAL CITY LONDON PERFORMS WORSE THAN EXPECTED IN ALL AREAS

TRANSPORT INFRASTRUCTURE	DIGITAL CONNECTIVITY	AIRPORT CAPACITY	UTILITIES INFRASTRUCTURE	SCHOOLS AND COLLEGES	HOUSING AVAILABILITY

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