

Who Pays, Who Finances, Who benefits? Roundtable 23rd April 2015

Kindly hosted by the Greater London Authority.

Key Learnings and Themes

Greater detail and visibility of key pipeline projects is important

Risk of retrospective government policy reversals is a disincentive to private-sector finance

Local empowerment via devolution creates more certainty about priorities

Private sector funding is available, but seeks incentives and more predictability

Big challenge for prioritization of London infrastructure investment is messaging – ‘what’s in it for me?’

Political need to define mutual benefits for infrastructure investment for core and regional

Bringing stakeholders together is an important role for government

Setting the scene: Chris Choa, ULI UK Infrastructure Council Chair - AECOM

Urban populations are increasing globally. Hub cities drive the economy of nations. Best-in-class infrastructure is catalyst for the globally competitive city. Infrastructure commitments improve quality-of-life in cities, which in turn encourages inward investment and attracts human capital, which in turn expands employment and revenue base. There are reciprocal relationships between city, regional, and global performance.

Case Study: London Infrastructure Plan – Jeremy Skinner and Madalina Ursu -GLA

London is growing and starting to exceed previous population peak of 1936. Infrastructure underinvestment is restraining this growth and future opportunities. London Infrastructure Plan highlights:

- 40 opportunity growth areas for 5,000 people leading to an increase of at least 1million
- Cost allocation of infrastructure investment across 5-year chunks
- Transport is the largest infrastructure sector in the Plan
- Digital connectivity is a powerful catalyst, but only 1% of infrastructure budget - outsized benefit
- Leveraging finance from fiscal devolution and housing growth
- Challenges: costs rise faster than GVA growth. Need for more private sector support
- Opportunities for efficiency: e.g. more coherent investment strategy; more sophisticated technologies, improved asset utilisation
- All of Greater London Authority committed to London growth; Infrastructure Plan opens opportunities for internally and externally opportunities to start the right dialogue
- GIS map of London to go live in June – outlining integration opportunities and overall areas



Images: (top) Manchester Tram (Phil Long flickr)

(Lower) GLA – London Infrastructure Plan 2050
<https://www.london.gov.uk/priorities/business-economy/vision-and-strategy/infrastructure-plan-2050>

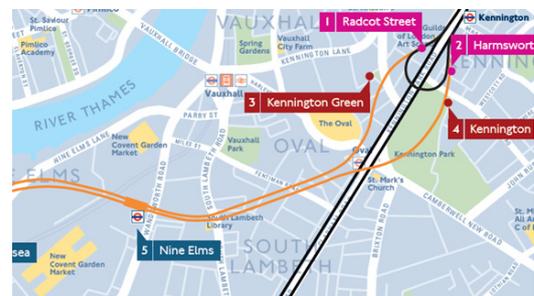
Infrastructure Finance and Funding – Nicola Beretta Covacovich, Wells Fargo Asset Management

Infrastructure finance is increasingly attractive for pension funds, insurance companies yet the successful management of risk using risk transfer can facilitate the development and private funding of infrastructure opportunities.

- Governments are best place at taking over higher risk in the construction phase and managing user/market risks in the operational phase Alternative private sector innovative funding models exist:
 - Infrastructure Junker Plan
 - UK Guarantee Scheme
 - Betterment Levy
 - Tax Incremental Financing
 - Municipal Bonds – successful in US, offers value for Institutional and retail Investors as well as for municipal authorities to fund local projects directly
 - PPP/P3
- Land value and tax capture of improvement have been used successfully at 9 Elms / Battersea tube extension

Devolution - Open debate

- Giving city level responsibility on a local level should also be seen in the context of a city's growth i.e. London is forecast to grow from 8.5 to 11 million, yet London's connected population represents at least 20million. Issues beyond capturing value, burden and risk?
- TfL tend to steer away from London's boundary questions and address instead origin and destinations–tax opportunity on commercial benefit as utilised for HS1
- 'Disenchanted Scotland' similar to other parts of UK - current focus on London is seen as self-serving. Will this accelerate drive towards devolution?
- Other EU cities already have successful financial devolution. Rotterdam – local fund for green roofs – defining values, sense of ownership and sense of place
- UK currently favours a centralised system but this becomes an issue of policy and not about place



Images:(Top) 9 Elms Proposed Route- TfL
(Lower) Rotterdam Integrated Transport Hub- Kadvacorp

Infrastructure Challenges

- Importance of messaging to gain funding and prove the net benefit to UK economy
- UK is centralised – good for legal in 90's until 2005 where politicians were aligned with PFI and PPP. Infrastructure is aligned with politics due to its diverse layers. 'Infrastructure is Government'
- Biggest challenge is the capability and capacity to bring forward projects
- £10-£100million infrastructure projects are typical, yet how can funding be achieved to unlock schemes of this size?
- Climate change: will the next government shift their focus from electricity to heat and transport? This is a far more complex and multi-layered issue with a focus on 2030
- For private sector, sites need to be 'shovel- ready' and the debt market is not well-matched for infrastructure due to its longer-term horizons
- Infrastructure developers need risk assurance and look for anchor tenancy. Getting active tenancy allows schemes to secure funds

- Equity is focused on shorter cycles where 3 years is seen as 'long-term' for private money
- Should broader population finance infrastructure across regions? For example London should coordinate and contribute more to the surrounding counties and wider UK

Unlocking Infrastructure Projects and Finance

- UK alignment is there – the country has the framework for good infrastructure investment, it provides regulatory certainty and needs prioritise and commit to delivering.
- Olympics and Commonwealth Games: proof that infrastructure can be delivered on-time and budget
- Availability of finance is not the challenge but who pays for it in the long-term?
- Property investors: discouraged that infrastructure takes so long, and forecasts are soon out of date
- London is a global city. Other cities need London, and connectivity with other cities contributes to London's success
- HS2 is potential catalyst for other broader benefits, e.g. intensification of urban development around nodes



King's Cross Case Study

Development's success based the simplified land tenure: government was two main land owners. Macro-economic cycles could have obliterated the scheme.

- Iraq war almost stopped the scheme, and Olympics was catalyst for success.
- Commitment from anchor tenants allowed for bank investment
- Success based on King's Cross/St Pancras connectivity to 120million passengers/annum. In turn creates broader benefit for London



Images (top) HS2 Stoke Route – Voltera
(Lower) King's Cross Station –JasonParis flickr

What is happening?

- Independent Transport Commission (ITC) started review of HS2, switched focus to wider opportunity of High Speed Rail and its relationship with other cities. Looked broadly at European examples
- Complicated system of funding – not 1 way = mixed economy. French and Dutch (Benelux) funding of stations achieved due to central, local and business commitment and approach across a wide range of beneficiaries
- ITC is focusing on developing core cities forum based on a 10yr horizon in partnership with RSA, Academy of Urbanism and ULI

Commitment to deliver

- Cities already raise their own money through municipal bonds. Private sector disinclined to invest without incentives to mitigate longer-term risk
- There is a need to prove the case through examples of 1-2 cities to sufficiently convince others to follow – proving political commitment and cross sector benefits
- Smaller projects can start now through funding from business-improvement districts and communities.

- Key is changing perceptions and funding initiatives: identify long-term beneficiaries in the wider community, both within the city and the broader connected periphery
- Change perception that London saps from other regions and focus instead on flows between London and other cities. i.e. Transport for the North delivering also delivering talent, innovation, and wealth for Manchester, Sheffield, Liverpool and Leeds

What's next?

- Future City Catapult – funding smarter infrastructure launching report 25th June
- Which cities are already collaborating and which should we learn from (Global, EU, UK)
- Is there a need for a wider UK Infrastructure Plan other than London and Manchester?
- What is best way for ULI to contribute to the infrastructure funding and delivery agenda?

Attendees

Julie Alexander, Siemens plc; Nicola Beretta Covacovich, ECM Asset Management Ltd; Nick Bliss, Freshfields Bruckhaus Deringer; Thomas Burton-Page, Transport for London; Chris Choa, AECOM; Ed Cooke, Bird & Bird LLP; Robert de Jong, ULI UK; Alex Gilbert, Amber Infrastructure Ltd; Julius Gottlieb, Dorchester Real Estate Asset Management; Matt Hallissey, AECOM; Caroline Haynes, KPMG; Said Hirsh, KPMG; Paula Hirst, Future Cities Catapult; Graham Meeks, Green Investment Bank; Nicole Metje, University of Birmingham; Hugh Mulcahey Concerto Partners LLP; Stewart Murray, Greater London

Authority; Lisa Recker, AECOM; Mathew Riley, EC Harris; Hugh Roberts, Jacobs Advance Planning Group; Bridget Rosewell, Volterra Partners LLP; Mark Saunders, Ferrovial Services, Centre of Excellence for Cities; Giles Scott, AECOM; Jeremy Skinner, Greater London Authority; Chris Smith, Argent LLP; Malcolm Stephen, BAM Nuttall Limited; Madalina Ursu, Greater London Authority; Julian Ware, Transport for London; Ray Webster, BAM Nuttall Limited; Colin Wilson, Greater London Authority; John Worthington, Independent Transport Commission; Bernard Yu, Balfour Beatty Investments.

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