



CALL FOR EVIDENCE
Infrastructure Commission

www.londonfirst.co.uk/infrastructure

Introduction

1. London First, the business-led membership organisation whose aim is to make London the best city in the world in which to do business, has established an expert Infrastructure Commission to address issues regarding London's infrastructure.
2. The Commission will take written and oral evidence from interested parties and will form policy recommendations on how London's infrastructure needs are planned, funded and delivered, principally for regulators, local and national government for the short, medium and longer terms.
3. By responding to this "Call for Evidence" businesses and stakeholders can make their views known to the Commission. The document sets out some initial thoughts and a number of questions to help stimulate responses.
4. Responses are invited by 12th February 2010.

Infrastructure in London

5. An effective infrastructure network is essential to London's, and the UK's, continued competitiveness and future economic growth. Infrastructure supports agglomeration benefits, raises productivity, improves global and national connectivity, enhances competition by lowering transport and communication costs, and supports labour markets by enabling people to travel to work. The OECD sets out clear links between infrastructure and better productivity². Despite less flexible labour markets France has higher productivity (\$53.7 per hour worked compared to UK's \$45.4) largely because of its excellent infrastructure³. If London is to remain a leading world city, continued investment in its infrastructure is essential.
6. Much of London's infrastructure is ageing, heavily crowded and contains little resilience. London's water is transported through a largely Victorian infrastructure system while the energy supply infrastructure has remained largely unchanged for thirty years. While there are important projects that are planned or have been started, such as Crossrail (which will add substantially to London's current transport capacity) and the London Tideway Tunnels (which will reduce foul water discharge into the Thames) more investment is needed. The demands on London's infrastructure are expected to materially increase over the coming decades, as the city is forecast to grow with a projected population increase of over 1.3 million by 2031 which will create over 790,000 new households and 750,000 new jobs⁴:

¹"Supporting UK growth while balancing the budget", LECG, 2009.

²"Economic Outlook No.85", OECD, 2009.

³"Delivering a 21st Century Infrastructure for Britain", Policy Exchange, 2009.

⁴"The Draft Replacement London Plan", Mayor of London, 2009.

- By 2026 public transport demand is expected to increase from 10 million daily journeys to 12.8 million daily journeys, with a 30% increase during peak hours⁵;
- TfL forecast an increase of 40% more rail trips per day into and around London by 2025⁶;
- Air travel demand is expected to double by 2020⁷;
- The road network is congested and in London this congestion is likely to rise by 17% by 2031⁸;
- The amount of waste London produces per annum is forecast to rise by at least 55% to 34 million tonnes by 2031⁹; and
- Water, a limited resource in the South East, is predicted to have a deficit that rises from 2% of demand now to 20% by 2035¹⁰

7. London is competing both with other world cities which are heavily investing in their infrastructure and countries that have a centralised and coherent approach to infrastructure planning, delivery and funding. Australia has Infrastructure Australia, which oversees infrastructure prioritisation, and the Building Australia Fund, to fund and deliver major projects. Japan, Canada, and South Korea all have umbrella departments that oversee infrastructure development¹¹. The Government has recently established Infrastructure UK to advise on national infrastructure requirements; the Commission will make sure that this body is informed of its work on London issues.
8. As the diagram overleaf illustrates, infrastructure in London is currently delivered by a range of private and public, semi-competitive and monopoly providers with different financing regimes. As infrastructure cannot be thought of as a single asset class except at a very high level, synergies or optimised delivery between the various providers are difficult to realise. However, a policy framework which incentivises such joined-up working can be very powerful.

⁵ "Transport 2025", TfL, 2006.

⁶ "Supporting UK growth while balancing the budget", LECG, 2009.

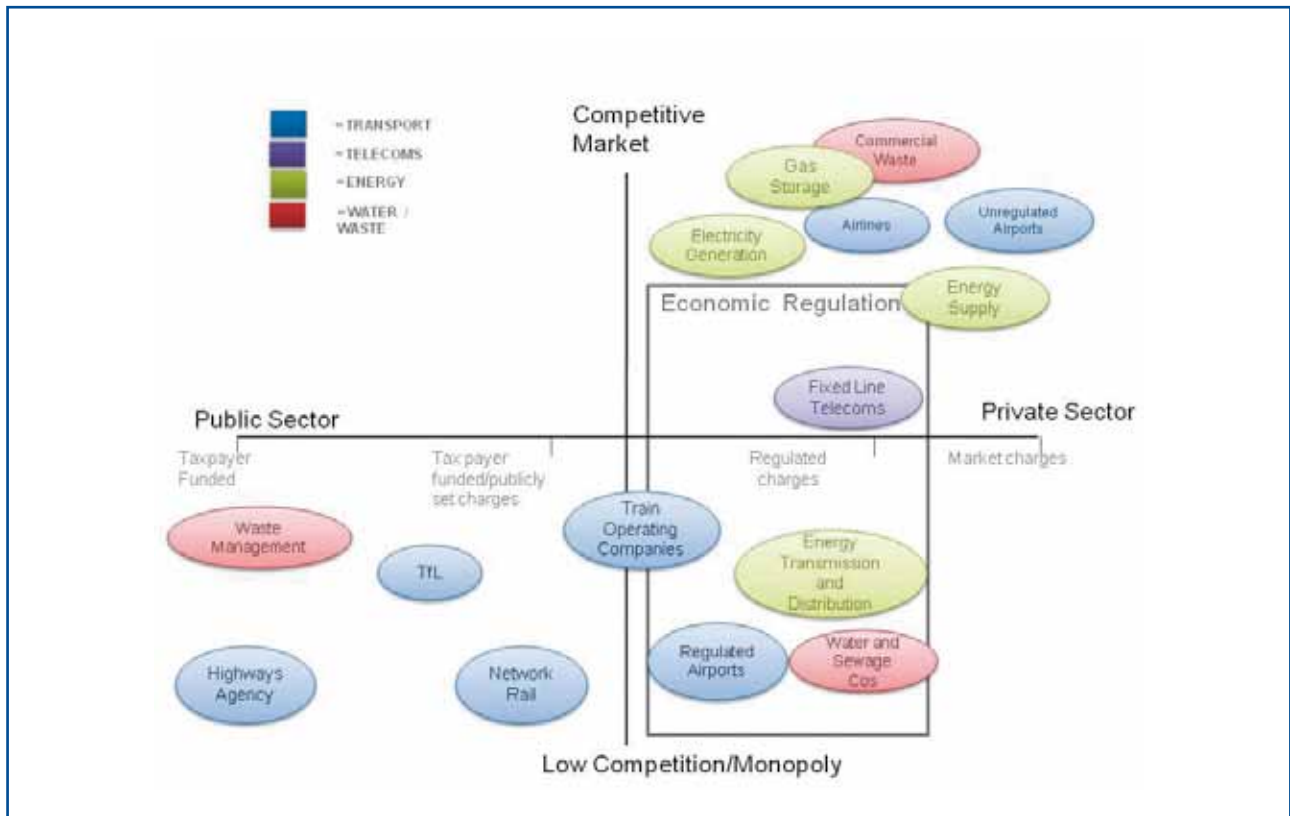
⁷ "Air Transport White Paper Progress Report", Department for Transport, 2006.

⁸ "Mayor's Transport Strategy", Mayor of London, 2009.

⁹ "The Draft Replacement London Plan", Mayor of London, 2009.

¹⁰ "Water: Planning for the Future", Thames Water, 2008.

¹¹ C.f. "Co-ordination of Infrastructure Development: Some International Comparisons", ICE, 2008.



Land use planning

- Planning for major infrastructure within London is to some extent established in the Mayor's London Plan which provides the strategic planning context for planning decisions and should be reflected in borough plans. The 33 boroughs determine the majority of applications with the largest (as defined in the Government Office for London Circular 2008) being referable to the Mayor, who may direct refusal or take over for determination. The Secretary of State for Communities and Local Government retains the ability to determine applications of national importance. This will be overlaid by National Policy Statements (NPS) for major infrastructure which will provide the context for the recently established Infrastructure Planning Commission (IPC) which, under the Planning Act 2008, will determine applications for national infrastructure.

Prices, investment and funding

- Public policy has been to regulate the core natural monopoly aspects of the privatised utilities while promoting competition where practicable. Each sector has a specific economic regulator (such as OFGEM for energy, OFWAT for water and OFCOM for telecommunications) and the scope of their regulation varies depending on each industry's characteristics. The liberalised aspects of provision – such as energy supply – are largely deregulated (apart from general provisions such as consumer protection) while the core monopolies (such as water, sewerage, electricity and gas distribution) are subject to economic regulation.

11. Here, regulators' statutory duties vary somewhat but their central objectives are to ensure that the interests of customers are paramount and that the companies they regulate can finance their functions. A central challenge for the economic regulator, operating under their statutory duties, is to balance investment for the future with price levels to customers in the present.
12. It has been argued that in practice this model over-emphasises short-term prices above long-term investment, as regulators seek to minimise short-term charges to end users, and takes inadequate account of the consumer's wish for quality (a problem compounded by the difficulty in providing differentiated services). There can also be a mismatch between wider public policy objectives (for example promoting low carbon provision) and a regulator's approach to setting prices.
13. Much of London's transport provision is in the public sector and has a less clear-cut regulatory framework. For example, London boroughs fund their roads through a budget process where this investment competes with social services expenditure and tax pressures. Transport for London (TfL) is an agency of the London Mayor, with many characteristics of a nationalised industry. It is funded through fares and government subsidy. This model can be very receptive to public opinion – the elected Mayor can issue directives to TfL – but its reliance on central government funding means it lacks the income certainty provided by an economic regulator. Concerns have also been expressed about its efficiency relative to the private sector. London's transport infrastructure is also supported through the s106 contributions that local authorities negotiate with developers and the government intends to introduce a new Community Infrastructure Levy which will support local authorities in the delivery of their local infrastructure plans.
14. A recent estimate for all required national infrastructure investment comes to around £500 billion, or £50 billion per annum for the next decade¹². The public sector net debt is forecast to almost double over the next four years - from 43% at the end of 2008/09, to 79% in 2013/14¹³. The Government forecasts that net investment will fall from an outturn of over 3% in 2009/10 to less than 1.3% in 2013/14 . But, as the OECD notes, capital expenditure programmes are typically the first victim of fiscal consolidation while less productive but politically sensitive programmes survive¹⁴. Efficient prioritisation of public investment in infrastructure, and encouraging innovative funding mechanisms between the public and private sectors will be central to meeting London's future needs.

Climate change and carbon targets

15. There is a clear global trend towards reducing carbon emissions (or at least mitigating the impact of growth on emissions) and both the UK and London governments have adopted targets.

¹²"Delivering a 21st Century Infrastructure for Britain", Policy Exchange, 2009.

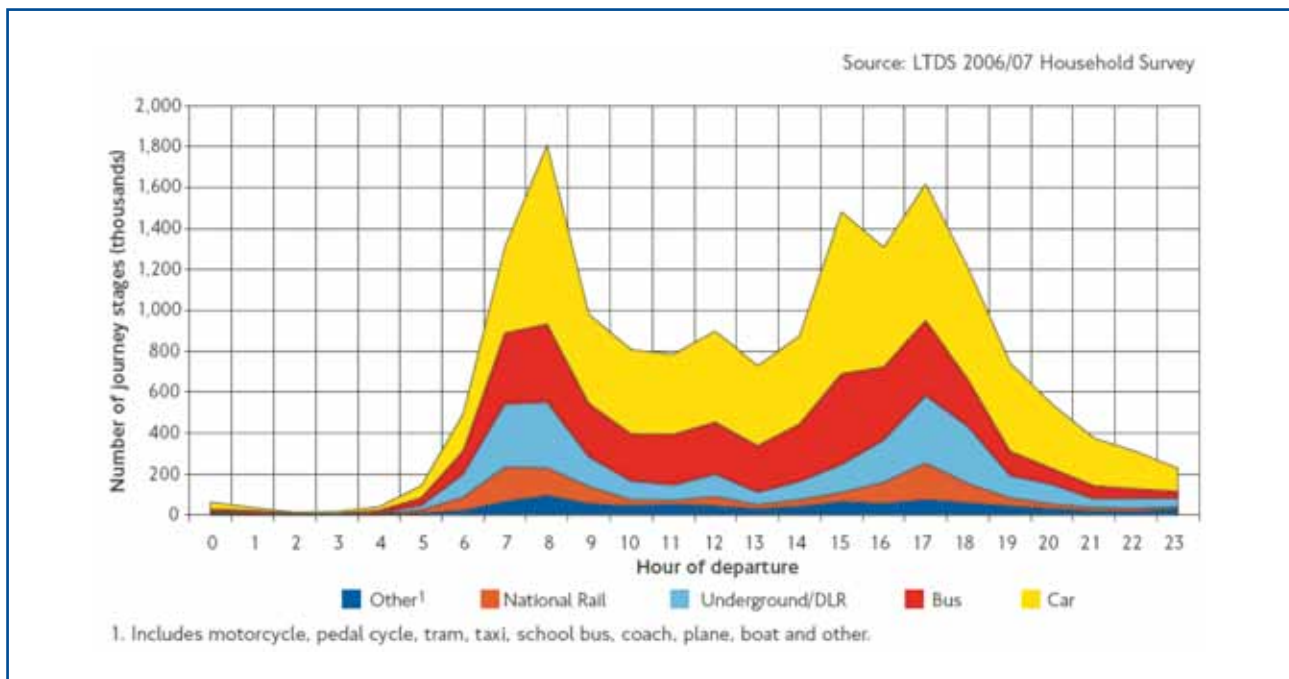
¹³"Public Finances and the Age of Austerity", Institute for Fiscal Studies, 2009.

¹⁴As in "Supporting UK growth while balancing the budget", London First, 2009.

16. The Mayor has set a London-specific target of reducing carbon dioxide emissions (from 1990 levels) by 60% by 2025 while the national government has a legal commitment to reducing carbon emissions by 80% by 2050. The cost to the UK of this level of emissions reduction is estimated to be between 1-2% of GDP in 2050¹⁵ and for London this will amount to between £1-2 billion. Unlike other regions of the world, that can build zero-carbon infrastructure from scratch, London must work with what it has. Current infrastructure in London, as mentioned before, was put into place decades, and sometimes centuries, before climate change was an issue. New infrastructure can be designed to emit less carbon but to change what already exists is likely to be more difficult and expensive.
17. Furthermore, the Mayor has set more specific targets to encourage a greener London, such as recycling and composting 60% of municipal waste by 2015 and getting 100,000 new electric vehicles on to the streets in the next few years. Ensuring that these translate into a maximum reduction of carbon will require close working with other infrastructure providers.

Demand management

18. Resources, whether water, space or energy, are scarce in London. Simply building infrastructure, however efficiently, to meet anticipated demand is unlikely to prove sufficient. Looking at ways in which demand can be managed, from creating incentives to level peaks and troughs through to fundamentally changing people's consumption choices, may well be an important part of delivering a world class infrastructure.
19. Transport provides a very clear example. There is a clear increase in demand at peak hours across all transport types in London as the graph below illustrates.



¹⁵"Building a Low Carbon Economy – The UK's Contribution to Tackling Climate Change", the Committee on Climate Change, 2008.

20. Peaks in demand for other resources such as energy and water also occur. In any of these infrastructure businesses, the provider of the service is required to plan and invest so such peak demand is met.

Resilience

21. Recently London has had to cope with several different threats to its infrastructure systems, such as rainwater flooding, terrorist attacks on its transport system in 2005 and heavy snow in 2009. As climate change increases, it will bring with it the additional problems of rising temperatures, wetter winters, drier summers, more intense rainfall and greater climate variability, with London at risk of flooding¹⁶. Heavy snowfall in February 2009 meant that 90% of businesses had to operate below full capacity¹⁷. It is predicted that with increased pressure from heat and flooding, systems in their current state may be more prone to future closures.

¹⁶The Stern Review predicts a 99% chance of a temperature rise exceeding between 2°C - 5°C which would lead to a sea level rise of between 19 and 59 centimetres by 2100, leading to the increased risk of flooding.

¹⁷"Slipping Up? The Impact of Extreme Weather on London", London Assembly, 2009.

Questions

Set out below are questions designed to stimulate thought on the topics raised in this report. There is no expectation that all questions should be answered, and submissions can also take the form of reports already written.

If pre-written reports are being submitted, please provide a summary of no more than 2 sides of A4.

The deadline for submitting responses is 12th February 2010.

Infrastructure in London

- Q1. How well does London's infrastructure meet the city's current needs?
- Q2. How well does London's infrastructure meet your needs as a business?
- Q3. To what extent can London's existing infrastructure cope with forecast growth?
- Q4. What types of investment are needed to meet forecast growth in demand over the next five, ten and thirty years?
- Q5. What are main the barriers to delivering new infrastructure?
- Q6. What challenges and opportunities are presented by constraints on London's land supply – in terms of both what is physically available to build on, or in, and high land values?
- Q7. The cost of disrupting day to day working through maintenance or construction is high. How can these effects be mitigated?
- Q8. Is there opportunity for economies of scale to be realised where synergies between different infrastructure strands exist and can be exploited?
- Q9. How can providers and investors work together to improve the delivery of infrastructure?
- Q10. Would London benefit from an infrastructure client, or sponsor, function?
- Q11. If so, what structure and role might this take?
- Q12. Does London government have the right levels of autonomy, power and funding to enable it to deliver the infrastructure the city needs?

Land use planning

- Q13. Are changes required to the planning system in London to enable the effective delivery of new infrastructure and, if so, what are they?

Prices, investment and funding

- Q14. Given current pressures on public sector expenditure, how should infrastructure projects be prioritised?
- Q15. How can the public and private sector work together to find innovative funding solutions?
- Q16. What changes should be made to the regulatory framework to enable more effective investment in infrastructure?
- Q17. Can the regulatory regime be used to encourage different infrastructure providers to work together to create a more effective environment for infrastructure delivery?
- Q18. How can the value of the externalities generated by infrastructure e.g. the wider social, economic or environmental benefits, be monetised to support investment?

Climate change and carbon targets

- Q19. How can London's existing infrastructure be adapted to help meet carbon reduction targets?
- Q20. How will carbon reduction targets impact on the design, planning and delivery of new infrastructure?
- Q21. Will carbon targets disadvantage London in comparison with other cities or is carbon leadership a source of competitive advantage?

Demand management

- Q22. What impact can different demand management techniques have on changing individual and business behaviour, in order to reduce pressures on current and future infrastructure needs?

Resilience and future-proofing

- Q23. How well does London's current infrastructure cope with unexpected events such as flooding, powercuts and terrorist activity?
- Q24. How can existing infrastructure be adapted to cope better under such circumstances?
- Q25. How should the balance between the cost of delivering a highly robust infrastructure network and the probability and impact of such events be managed?

The Infrastructure Commission is comprised of:

Chair – Martin Stanley, Head of Macquarie Capital Funds Europe

Terry Hill, Chairman, Global Transport Market, Arup

Nick Pollard, Chief Executive Officer, Bovis Lend Lease

Ann Bishop, Managing Director, Indepen

Dr. Timothy Stone, Chairman, Global Infrastructure Projects, KPMG

Sir Adrian Montague, Chairman, London First

Prof. Tony Travers, Director, LSE London, London School of Economics

Please send submissions to Anna Ridler at the address below, or consult the London First infrastructure webpage at www.londonfirst.co.uk/infrastructure for more information.

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