Rt Hon Andrew Adonis
Chair, National Infrastructure Commission
HM Treasury
1 Horse Guards Road
London SW1 2HQ

8th January 2016

Dear Andrew

National Infrastructure Commission call for evidence

I am writing to you to set out London First's views in response to the National Infrastructure Commission's call for evidence. We support the creation of the National Infrastructure Commission and welcome the fact that the need for large scale transport improvements in London has been identified as one of three key future challenges. As you would expect, our submission focuses on London's transport infrastructure.

As you know, London First is an independent business membership organisation whose mission is to make London the best city in the world in which to do business. Our members include the capital's leading employers in key sectors such as financial and business services, property, transport, ICT, education, creative industries, hospitality and retail.

We welcome the Government's commitment to investing in infrastructure as a driver of economic growth, and in particular its commitment in the recent spending review to support £11 billion of new investment in London's transport to the end of the decade. Such investment on its own is, however, insufficient to meet the scale of growth facing London – something tacitly recognised through the creation of your current study. Enabling London to meet its longer term growth potential will require continued investment into the 2020s if we are to avoid serious overcrowding on public transport, regular station closures and worsening road congestion.

We hope that the Commission will endorse the need for prompt and positive decisions on future investment in London's transport infrastructure, particularly in Crossrail 2. With the right investment decisions, we believe that London holds significant potential to support additional economic activity to the benefit of the UK as a whole.

We would of course welcome the opportunity to meet with you or your team to discuss these issues further.

Yours sincerely

David Leam
Infrastructure Director

National Infrastructure Commission call for evidence
Representation from London First

We welcome the opportunity to provide a London business view on the pressing infrastructure challenges being examined by the Commission ahead of the March Budget. As a London-based organisation, our submission focuses on the challenges facing London's transport system. However, we make some opening comments on the importance of securing good transport connectivity in general, which apply both to London and to other UK cities also being considered by the Commission.

Infrastructure's role in supporting economic growth is now widely recognised. 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 per cent in the same year and by 1.5 per cent four years after the increase*". (See *London's Infrastructure: Investing for Growth* for further details).

While we are not well placed to comment on the merits of specific proposals being considered across the north of England, we believe that if government is to address regional imblances this will require intelligent interventions such as improvements to transport infrastructure around the UK. While it is by no means a dead cert, strengthening transport connectivity between northern cities could plausibly contribute towards creating a stronger agglomeration economy in the north.

At the same time we must not lose sight of the fact that in London and the SE, the UK is fortunate to have one of the most successful and productive agglomerations in Europe, even the world. Sustaining London's continued success generates the economic returns that support investment right across the UK. Given this, we must avoid falling into the trap of thinking that as a country we should somehow choose between investing in infrastructure in London or in cities elsewhere. If the UK is to secure sustainable economic growth we must do both.

We also welcome the creation of Transport for the North. The London model of a Mayor and city-wide transport authority has transformed the capital's ability to provide good day-to-day transport services and to plan and deliver new infrastructure and services that meet the needs of Londoners. Transport for the North has the potential for a similarly beneficial impact on cities across the north.

Finally, we believe that a key constraint facing all UK cities is their limited capacity to self-invest, given the much lower levels of fiscal and political autonomy UK cities have relative to their international counterparts. We say more on this issue below.

London's transport infrastructure

Taking the Commission's five questions in turn:

1. *What are the major economic and social challenges facing London and its commuter hinterland over the next two to three decades?*

With the right decisions, London's economy has the potential to grow further and faster in support of UK productivity. London is a unique global hub for talent, business, finance and global visitors. It is a very productive city, with Inner London having the highest GDP per capita in the EU, which also helps drive productivity elsewhere in the country as firms locate related business functions outside the capital. We recently supported the London Enterprise Panel in producing an economic development agenda for the capital (*London 2036: an agenda for jobs and growth*), which sets out how London is well placed to continue to grow in a changing global economy.

London's success is also 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 benefit 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 is projected by the GLA to grow to 10 million people by the early 2030s and to exceed 11 million by 2050. Employment is also predicted to rise significantly – from 4.9 million London based employees in 2011 to 5.8 million in 2036. Such projected growth is testimony to the capital's continued attractiveness as a world city. Yet as London grows, the transport infrastructure that enables the city to function comes under greater strain. A legacy of historic underinvestment over past decades 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 transport infrastructure, much of which is already operating at or near its limits. To ensure we can successfully mobilise a growing population into the most economically productive region in Europe, London needs a transport infrastructure plan beyond 2020, with agreed priorities and committed funding.

2. *What are the strategic options for future investment in large-scale transport infrastructure improvements in London - on road, rail and underground - including, but not limited to Crossrail 2?*

Effective infrastructure delivery requires two things. First, London needs an agreed plan which identifies and prioritises future infrastructure need across sectors, focussed on driving enhanced productivity, competitiveness and economic growth. Targeting the programme in this way is essential as this generates the additional value and revenues which support sustained investment in London and the wider UK. Second, there needs to be the long-term funding and financing to pay for that infrastructure.

On the first of these points, the Mayor of London has taken a significant step forward in planning for growth with the recent publication of the GLA's London Infrastructure Plan 2050 and the creation of a new Infrastructure Delivery Board. The Plan identifies a range of transport priorities for London, including upgrades to existing tube, rail and road infrastructure, as well as additional new transport infrastructure.

We welcome the commitment in the recent spending review to support £11 billion of new investment in London's transport to the end of the decade. However, such investment on its own is insufficient to meet the scale of growth facing London. Enabling London to meet its longer term growth potential will require continued investment into the 2020s across all transport modes if we are to avoid serious overcrowding on public transport, regular station closures and worsening road congestion.

This takes us to funding and financing. London has remarkably limited capacity to self-invest and is more dependent for funding on central government in key sectors such as transport. We therefore welcome the National Infrastructure Commission's review of London's transport infrastructure as we believe future planning by both central and London government needs to take place in earnest now.

Turning to London's roads first, the network faces significant capacity pressures. These will in part need to be addressed through improved traffic management systems and through making it easier for road users in the peak, such as freight, to operate at other times of day. However, new capacity will also be required, starting with the long overdue completion of proposed new river crossings to the east of London. For the longer term more radical and difficult options such as new underground roads and more sophisticated congestion charging also need to be explored.

On the Tube and rail we believe that there remains some scope for further upgrades to existing lines, through modernised signalling and new trains - which enable more capacity through higher frequencies, as well as greater reliability. Inevitably, however, the potential for greater benefits is much more limited on the numerous lines that have already been upgraded. We also see scope for further devolution to the Mayor of rail services within London as franchises expire, to enable services to be better integrated with the wider London transport network and better aligned to the needs of users.

The introduction of Crossrail and a revitalised Thameslink by the end of this decade will enhance London's rail capacity and provide some breathing space on some parts of the network. But London's rate of growth is such that new infrastructure will also be required if we are to successfully harness population growth into economic growth. We endorse the Mayor's argument that there are numerous potential transport schemes in the capital which would enable additional economic growth, jobs and housing – and believe Crossrail 2 should be an immediate priority for the 2020s.

As the former Chair of London First's Crossrail 2 Task Force, you will know that London business is a strong supporter of Crossrail 2 as a regional transport scheme that will add significant new rail capacity, while supporting 200,000 new homes across London and the south east (and around 60,000 jobs across the UK during its construction). You will also be familiar with the report of our subsequent funding group, chaired by Francis Salway, which described the case for building Crossrail 2 as "overwhelming". We believe that the arguments set out in these reports in favour of Crossrail 2 remain compelling, and urge the Commission to support Crossrail 2 as an early funding priority to enable its delivery over the 2020s.

3. *What opportunities are there to increase the benefits and reduce the costs of the proposed Crossrail 2 scheme?*

As with similar major projects at this stage of development, Crossrail 2 should continue to be subject to value engineering to bring down its cost. We also see scope to further maximise the benefits of the scheme, in particular by better joining up new transport infrastructure and development than has often happened in the past.

We believe that future transport projects should be more ambitious early on about the scale of commercial and residential development that is both possible and appropriate around stations (our response to question 5 highlights experience in other cities). Chapter 3 of our Crossrail 2 funding report outlined the significant value uplifts occurring around Crossrail stations – only a small proportion of which were captured to help fund the project. We must now plan and deliver Crossrail 2 as an integrated transport and development project, not just a new railway.

We welcome the creation of the new Crossrail 2 Growth Commission to identify areas of potential development opportunity. Actually realising enhanced ambitions for residential and wider development will require sustained political leadership and in some places policy change, for example to planning policy regarding density and height, re-use of existing industrial land and, selectively, of green belt. It may also require the creation of bespoke special purpose vehicles to plan, lead and drive development on the ground. Ultimately, to realise additional development, politicians will need to will the means as well as the ends.

4. *What are the options for the funding, financing and delivery of large-scale transport infrastructure improvements in London, including Crossrail 2?*

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, largely by central government.

To help meet future investment needs, London will need to continue to utilise the various, albeit limited, revenue raising measures it already has discretion over (principally fares and charges, some taxes and developer contributions). For large-scale new projects such as Crossrail 2, Crossrail provides a good example of how a mixed funding approach can work, with 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).

Separately, the Northern Line Extension to Battersea is being funded by the private sector through CIL and the retention of business rates for a period. 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.

Our Crossrail 2 funding report in 2014 identified a number of options which we believe show that a workable funding package can be negotiated to enable the project to go ahead. While some of the cost figures have risen since then, so too will potential value uplifts, so we remain optimistic that a viable funding package can be constructed and are willing to help work with central and London government and London businesses to develop a funding package as we did for Crossrail 1.

In the absence of substantial fiscal devolution, a funding package for Crossrail 2 will inevitably require additional support from government through some combination of grant, guarantees and retained tax revenues. This is perfectly reasonable given the much greater net benefits to the national economy that investment in London's transport infrastructure generates.

We believe that some form of 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 main focus of London business is, however, on achieving the outcome – sustained investment in London's infrastructure – to support economic growth. We are pragmatic about precisely how that is achieved.

5. *How have major metropolitan areas in other countries responded to similar challenges and priorities? Are there any lessons to be learned and applied in London?*

We have two main points. First, we would emphasise that Crossrail and Crossrail 2 are themselves good examples of London learning and applying the lessons of other world cities. Paris in particular has a long tradition of successfully planning and delivering regional rail links (in the form of the RER) – as London is now belatedly doing with Crossrail and Thameslink, and seeking to through Crossrail 2.

Second, we would highlight the experience of major metropolitan areas such as Hong Kong and Singapore which have been extremely effective in integrating transport infrastructure with high-density, high-value development. This has brought significant gains through creating additional opportunities for housing, employment and retail, and has also generated significant additional economic value – a proportion of which can potentially be captured to help fund transport infrastructure.

This is not to say that we should attempt to simply replicate those models in the UK as there are important differences in land use planning policy and how development is undertaken in practice. We should however draw on these models for inspiration and encouragement to apply existing policy tools, such as the CIL, towards similar ends here.

We believe that future transport projects should be more ambitious about the scale of commercial and residential development that is both possible and appropriate around stations. As noted above, realising this ambition may in places require changes to planning policy regarding density and height, re-use of existing industrial land and, selectively, of green belt. It may also require the creation of bespoke special purpose vehicles to plan, lead and drive development on the ground.