



**All Party Urban Development Group**  
promoting sustainable development and urban renewal

**Oral Evidence Session**

# **TRANSCRIPT**

***Financial Devolution and Private Sector  
Funding of Infrastructure***

**Committee Room 12  
House of Commons  
20 November 2006**

ALL PARTY PARLIAMENTARY URBAN DEVELOPMENT GROUP  
TRANSCRIPT OF FIRST INQUIRY SESSION  
“FINANCIAL DEVOLUTION AND PRIVATE SECTOR FUNDING OF  
INFRASTRUCTURE”

20<sup>TH</sup> NOVEMBER 2006

HOUSE OF COMMONS  
COMMITTEE ROOM 12

OFFICERS IN ATTENDANCE:  
Clive Betts MP (CHAIR)  
Lord Best (VICE CHAIR)  
Andrew Pelling MP (VICE CHAIR)

WITNESSES:

Local Government

Ian Bromley - Chief Executive, Creative Sheffield  
Tony Travers - London School of Economics  
Sir Robin Wales - Mayor of Newham  
David Wechsler - Chief Executive, Croydon Council

Commercial Property & Regeneration Finance Industries

Leslie Chalmers - Chief Executive, English Cities Fund  
Ken Dytor - Managing Director, Regeneration Investments  
Peter Miller - Director of Development, Westfield Group  
Heneage Stevenson - Bee Bee Developments

Think Tanks

Chris Leslie - Director, New Local Government Network  
Adam Marshall - Senior Researcher, Centre for Cities at ippr  
James O'Shaughnessy - Head of Research, Policy Exchange

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## **Session 1: Local Government:**

**Witnesses:** SIR ROBIN WALES, Mayor, Newham LBC, MR DAVID WECHSLER, Chief Executive, Croydon LBC, MR IAN BROMLEY, Chief Executive, Creative Sheffield, and MR TONY TRAVERS, LSE examined.

CHAIRMAN: Good afternoon, ladies and gentlemen. Welcome to our hearing this afternoon. I shall begin by explaining who we are. I am Clive Betts, MP for Sheffield Attercliffe and I am Chair of the All-Party Urban Development Group. With me I have Lord Richard Best, and Andrew Pelling, MP for Croydon Central, who is stepping in this afternoon for James Brokenshire to make sure we have an appropriate cross-party hearing. Apologies for Baroness Scott, who I think has been unavoidably taken out of action today. Just to assure you that when we eventually come to do our report, having heard all of the oral evidence and the written evidence, this will be a genuine cross-party report and the officers will agree it from their different political perspectives together. This is a new all-party group, the Urban Development Group, formed only a few months ago but with wide support in both Houses of Parliament and interest and commitment from many people outside. The secretariat is provided by the British Property Federation, and we also have assistance in the research from the Centre for Cities at ippr. Dermot Finch from ippr is with us to offer advice and assistance this afternoon here as well.

We are trying to look at the whole issue of urban infrastructure. This is our first inquiry. It is slightly unusual for all-party groups to do inquiries in the way that select committees do, but it is no bad thing. I think there have been some examples in the past and we want to try and move along using that particular mechanism. We want to look at the whole issue of urban infrastructure: does it serve its purpose well in the United Kingdom at present? Are there examples we can learn from elsewhere where they do it better? Are there particular issues of finance and funding where there are difficulties or problems that mean at the local level things do not happen in the way that both the public and the private sector wants them to? We have already received quite a lot of written evidence and we obviously take that into account. We have a range of people to give evidence to us this afternoon from local government, from joint organisations from the private sector and from think-tanks. We will take that evidence on board together with the written evidence we have received and in due course, with assistance from our advisers, produce a report for your consideration.

With that brief introduction, perhaps we can move on to hearing the first group of witnesses. I think it would be helpful for everybody's sake if perhaps you can begin by introducing yourselves so we know who you are and where you come from and take that into account when we hear evidence from you.

MR BROMLEY: My name is Ian Bromley. I am the Chief Executive of Creative Sheffield, the new city bond company.

MR TRAVERS: My name is Tony Travers from the London School of Economics.

MR WECHSLER: My name is David Wechsler. I am the Chief Executive of Croydon Council.

SIR ROBIN WALES: My name is Robin Wales. I am the elected Mayor of Newham.

CHAIRMAN: Thank you very much indeed. Can I begin by saying this is a very general question to all of you. Is the problem we have in the United Kingdom at the present - actually I do not think it is a problem - that we do not have sufficient investment in our infrastructure, or is it that there is enough funding around, it is just that we do not manage the process in a way that perhaps is done better in other countries? It is a very general question to start with.

MR TRAVERS: Perhaps the best way of getting a sense of whether there is enough investment in major cities, particularly in the major cities outside London, is to compare their basic infrastructure, perhaps particularly transport infrastructure, with those analogous cities in other parts of the world. If you compare the major provincial cities in Britain and look at them against what goes on in the Lyons, the Bilbaos and the Bostons, they are simply not as well served by the kind of infrastructure that would allow them to deliver urban development over a longer period. I think the reason for that, which is hinted at in some of your earlier papers, is because of the highly centralised nature of control of public money. That makes it extremely difficult for the decision about the investment in local infrastructure to be made in the place where it is decided the infrastructure is needed. For that reason, British cities often lag behind analogous ones in other countries.

MR WECHSLER: Certainly that has been our experience in Croydon, despite the fact that we did attract government money for the tram rail. Decision-taking is highly centralised, one of the consequences of which is that in looking to extend the system we go back to the start. We do not have any means ourselves of generating the next phases of development. The consequence is that we are constantly bidding for resources in the national context, a context in which inevitably quite small sub-regional schemes, which are perhaps only of interest to us locally, tend to be squeezed out, understandably, by larger national considerations. As Tony said, it is the centralisation of decision-taking which I think has this particular consequence. I think the key problem for us locally is that we have no means of capturing the value-added by the schemes that we undertake. If I were to make one point this afternoon it is that we have no access to any means of capturing value, whether it is from decongestion or whether it is wider economic benefits, such as increasing land values or increasing property values, increasing private sector investment or employment. That is in marked contrast to our European counterparts. Everything we do potentially appears on the national balance sheet, which is very odd in a way for some schemes of the sort that we tend to be looking at in a place like Croydon, which are relatively small-scale when viewed against huge projects such as Crossrail or the Channel Tunnel Rail Link.

SIR ROBIN WALES: Coming from Newham we sit in a very interesting place. We have the largest number of large planning applications in the whole of London now. Clearly with the construction of the transport links which are taking place it has resulted in a huge development. The Olympics with Stratford City is much bigger and for us that is significant in terms of the jobs it is creating. The question I would ask is what is the purpose of the development which we are seeking to achieve? That is a question worth asking in that if you look at much of the regeneration which is taking place, it is certainly worth doing it in terms of driving the economy of the country forward but it is questionable as to how far it is helping those who frankly do not have jobs. In my borough I have 20,000 people who have never, ever worked and the regeneration that is coming along will not necessarily give them work unless we can find a way of getting them access. If you separate out the industry-side and decide there is something worth doing, it seems to me there are two different aspects in this. One is transport, and if you do not plan the transport infrastructure it is not going to happen.

In Newham for many years we have fought for the tunnel rail link, the Jubilee line has come along, and suddenly the development is there. It is going to take place, people want to come there, people see their land values rising from which we are seeking to capture the value which will then provide the other public infrastructure where we are always very far behind. Instead of planning and saying, "These people are going to be there, we are going to need schools, we are going to need hospitals", we come along somewhat later than we should, but nevertheless there is some sort of system to capture it. What we do need to be clear about is the development of transport networks because without that the developments that the Government thinks are important, the developments that we all think are important for a number of other reasons, will not take place or they are going to take place in a way that does not build the communities. I think that is the other message which has to be clear, that as we do these developments we create communities.

It seems to me that is the place where we have to deal with the communities. After we have had development done to this, the communities that are left and how we pick up the bill for the problems and the cost to communities as being part of that development is extremely important. I do not think that is too bad in Newham but that is partly because the transport infrastructure has come. There needs to be clarity about how much do we want to invest in that transport infrastructure. Once that happens, the land values come up and there are lots of opportunities. One of the things we are looking at as a development trust is we seek not so much to wait for people to come and say, "The value is there, let us develop it", but rather where we can initiate development with partners and say, "What are the developments that would best suit both the existing communities and the communities that are to come?" If I was trying to answer your question rather than just telling you what I thought about the things I want to tell you about, it would be that clearly we need to get transport infrastructures right. Transport is a big business, there are telecommunications, water, power, all the rest of it, and if we get them right we have opportunities and then the opportunities come and the other stuff can be done. We are better at that, I think, but we are not good at being clear about transport development both at a local level but also at big strategic levels. That is the challenge.

MR BROMLEY: This is the first and possibly not the last time I will mention that I am two months in post and two months in the country, so I do not want to overstep my knowledge. Just reflecting on Sheffield, there clearly are a lot of polar infrastructures compared with where I am used to being, which is Canada. From my perspective as a city development company chief executive, given that my overall focus is on the competitiveness of Sheffield, connectivity from our region to outside the region is probably the biggest issue I see. It is a two hour and 15, two hour and 20 minute rail visit down to London. Connections to Manchester are pretty poor. I feel that in Leeds, Manchester and Sheffield we have potentially got a second British conurbation, not to rival London, not to compete with London but, in fact, to provide a whole second major metropolitan area if we were to make some really big strategic investments.

LORD BEST: I was going to ask the Londoners, because of their particular experience, about decision-making being devolved not only to local authorities but to the regional level as well and whether it is absolutely sensible to think in terms of extra powers at local government level when you are talking about transport as it is obviously going to cut right across London. Possibly, Robin, from your own mayoralty perspective, you might comment on whether the Mayor of London should have powers that he does not already have and how those would relate to your own.

SIR ROBIN WALES: Of course I get on great with the Mayor of London and we have a wonderful relationship, so I will not say a word against him! I hope we get those words exactly correct on the record! I think there is a balance. It is interesting that the Government has gone out on consultation recently for new powers for the Mayor. When I was chairing the LGA we said “yes” to some of those and “no” to some of the others. In fact, now with council arrangement there looks to be the beginning of accommodation and agreement over some of the planning powers. It is difficult. You do not want regional government to be able to force things through because in the end they do not pick up the community aspect. On the other hand, they have a regional requirement which needs to be looked at and I think, like anything, there will always be a balance. If anything, probably some of the things Ken wants to do regionally are things which we would entirely support and we would encourage him to have more powers over. For example, Crossrail is something we would always say, “Yes, let us get on with that and let us do it because we are going to have to do it anyway, it is something we need to do”. There is a balance and it has to be struck between the needs that London has and the region has.

I think London is a major source of wealth and a driver for the economy. Sometimes when we talk about local government, which is absolutely critical in terms of driving wealth and wealth creation, London is that sort of machine which is very important for doing that, but also recognising that the communities that are created must be the right communities. We are working very hard in Newham on a number of initiatives. We have a £1.7 billion scheme in Canning Town which we are funding ourselves effectively which is about mixing our communities more. We are buying properties in the private sector, using money from banks, in order to create social housing in private areas and it is about developing communities. It seems to me that local government should have the right to say, “We represent communities”. That is all I do. I am not of the council, that anybody has elected me, I represent the community, but there are regional requirements. I think there is always a balance. There will always be an argument, and the Mayor of London will always want more powers than he or she should have, and local government will always want them to have less power than he or she should have.

There was a wonderful quote from the GLC local authority days - I cannot remember it, but Tony will - where it was clear that the real opposition was not people in the council, it was the GLC, and the council was where the real battles took place. There will always be lines to be drawn and I do not think they are too bad at the moment.

MR WECHSLER: If I may give you a footnote on that. Our tramway was delivered by collaboration between the regional tier of government and the local authority, and I think for transport systems which are so intimately connected with people’s lives and impact on their local environment that must be right. It is not just about powers, it is also about the ability of different levels of government to collaborate with each other, to be sensitive to the local impact and to reflect local people’s views both in the conception and the implementation of projects of that kind. It would be invidious to contrast our experience with that of others, but there have been recent attempts to introduce tramways in other parts of London which appear to me to have foundered on a lack of the local dimension. I do not think it is either/or,

as Sir Robin said, I think it is both.

MR TRAVERS: What I would like to add is London is a region in the English hierarchy of institutional boundaries but it is an urban area which happens to be a region. I think London's region is a bigger thing embracing the East and the South East and that is a complicated debate. What the London experience suggests is that the urban area surrounding major cities is something which has meaning. I absolutely accept that connectivity between major urban centres and down to London, or up to London depending on how you look at it, is hugely important, but within the other urban areas where there is an existing institution at the city regional level, passenger transport authorities, it is not something to be ignored given mercifully it exists, and, therefore, that level that the London experience suggests at the city regional level, particularly in the context of urban development, may offer a non-threatening intermediate level at which some forms of infrastructure can successfully be developed. I think the London experience relatively happily backs that idea up. Personally, I am not sure about the whole of the regions outside London as a single entity for these purposes.

CHAIRMAN: Have you found that the Northern Way exists yet!

MR BROMLEY: I have not looked for the Northern Way!

MR PELLING: First of all, Chairman, thank you for letting me go to speak on the Queen's Speech on the GLA Act and the Local Government Bill. Following on from our script, how do we get the balance right between devolution and local accountability, especially when it comes to the imbalance between spending and revenue-raising? Do you feel it is within the culture of the UK, despite whatever goodwill there is to localism, for central Government to always leech the power of local government? Mr Wechsler was talking about taking advantage of the extra value which is created by infrastructure investment, but is it not somehow a contradiction in the way that this new planning supplement tax will end up being a national tax rather than it going back to local government? To make it a Croydon love-in, I am very impressed by the way that Croydon is able to identify the value of the Section 106 agreements which it has in place. It strikes me that Section 106 is something which is going to get lost through this process and we will end up with less power for local government than we already have left with it.

MR WECHSLER: It would be presumptuous of me to comment on the culture of decision-taking at government level, so I think I will leave that for members. I think there is a whole range of devices deployed in other countries on the European mainland and in North America to do just what I suggested might be possible. Of course they all have pros and cons, none of them is perfect, but they have the effect of removing an issue which is the dominant factor here, which is the preoccupation, understandably, in central Government with borrowing and financing the paradigm method for financing infrastructure development which is to, in some sense, borrow the money or rely on the PFI at least for part of it. One returns to the issue, which for me is central, of how does government at whatever level, whether it is local, regional or national, set about capturing some of the direct benefits that infrastructure development confers both locally and nationally so as to be able to reinvest in success at a greater rate than we have in the past. I am sorry, I am restating the question rather than answering it directly because it involves a lot of technical complexity. I think once the principle is accepted then a solution can be found, and there are many models on which one could draw.

MR TRAVERS: I think the parable of Section 106 and the Planning Gain Supplement is one which is very revealing. Section 106 deals came about in an attempt to allow authorities to find ways of, in effect, taxing developments to pay for at least part of their infrastructure. Once local government had become reasonably adept at that, needless to say the Treasury lighted upon it as a possible way of taxing more generally. Now we have consultations about the Planning Gain Supplement which, in effect, could partly regionalise or nationalise what started out as local revenue. That is terribly revealing about the way British policy develops. Of course there are severe questions about whether the Planning Gain Supplement would be an appropriate way of encouraging development, or indeed possibly discouraging it anyway, but lying behind all of that is the fact that the local government finance system, the business rate and the council tax, operates in such a way as to provide little or no incentive for authorities to develop. Even at that point, compared with North American examples where authorities do have a positive incentive to develop because they keep parts of their revenue, in our system they are unlikely to keep any of it, or if they are through the local authority business growth incentive scheme it is difficult to predict in advance whether any particular development will lead you to keeping some or all of the extra money. The system is very unclear and gives very inaccurate signals to local authorities and, going back to the point David Wechsler made at the beginning, it is very difficult for authorities to capture the benefits of good things that they do further to develop themselves.

CHAIRMAN: Following on from that issue. It seems that everybody is now in favour of devolution of some kind, I think even the Government is just about getting there, which is a welcome sign, but what specific powers are local authorities going to need before one or two things could happen? How is that going to mean we are going to get more private investment in on the back of whatever we can do in the public sector?

SIR ROBIN WALES: I think there are a number of things. It is interesting, for example, and this is the problem we are facing, if we want a one per cent rise in budget in Newham we need a six per cent rise in council tax; if Britain needs a one per cent increase, it is a 1.2 per cent increase against that. There is one of the problems. When you are talking about the business rate, for example, we are desperate to stay where we are because we raise the smallest percentage of our own income because of our population and that is a problem. As you try to equalise any sort of system of finance recognising need, the minute you take a step one pace beyond dealing with that and let somebody get away with not having to pay into that system, you end up with a system which is not going to deal with the movement of direct money into areas which are most in need. Equally, if you have a system like that you do not end up with the American system where you can raise the taxes and encourage development which would be in your interest.

One of the things we are exploring at the moment is the development trust where we consciously go out and encourage development with partners. It does seem to me that rather than thinking about how do we fix taxation, how do we set it up so that, for example, at regional level we free up the Mayor to be able to do development partnerships in an effective way which says, "We will work on this together and where we are taking some of the money from this we will give some of the benefit because we know what we want to do", if we streamline transport infrastructure it is going to take a long time to get that benefit back. The Jubilee Line is running for how many years now? Now the values are starting to rise. Canning Town is being touted as the place where value is going to rise the fastest, well that is true. The point is the values are starting to come now but it takes time. If you can put something in place, a more proactive role for local authorities and regional authorities to say,

“We could drive these things forward if there is a way that we can establish these trusts, or whatever it be, development vehicles, if we take some of that money back then we are aiming to pay for some of these things”. We also have to recognise sometimes that the money is not going to come back. There is an argument that says the public sector is there to provide the networks that are going to work.

We have not touched utilities where there are all sorts of interest about how utilities are perhaps backing away from big infrastructure developments and investments which it ought to be doing if we are going to have the infrastructure we need in the future. I think it is about being a bit more proactive rather than solving it through the taxes, although I think that is a good development as well, but it is where we actively, in the public sector, become partners. We cannot do the developments. We have come a long way from the days when we used to think we could build everything ourselves, but we could be part of the teams who put that together which then makes sure the public sector is reaping the benefits. We have enough powers and opportunities in that area. We are certainly going to try and do it in Newham on a small scale. We have a development trust to do that, we will seek to do developments, we will seek to be the primary mover for some of those developments and part of that is we want the money back to be able to invest in public infrastructure.

CHAIRMAN: Ian, can you talk about how things might be done differently in North America because you have got some experience there, and say how things are more constrained in your current job?

MR BROMLEY: The fact that property tax is essentially kept locally does encourage investors to make those kinds of longer-term investments that will result in real estate appreciation. There are also some downsides to that as well in that sometimes you get some pretty silly tax-based catchment areas, but if you are going to put more of local taxation back into the local area where it comes from I would suggest you have to think quite carefully about what the proper catchment area is for that. You do not want to end up with a situation where 30 or so London boroughs are fighting for car dealerships at strip malls or the kinds of things that go on in some of the bigger metro areas, particularly in the United States. Canada has solved that to some extent by having large cities, so the internal competition is not quite so nasty and pointless.

MR TRAVERS: It is clear that in North America, particularly in the United States, there can be what you might call “eccentric competition in tax competition” but, in a sense, we are right at one end of the spectrum at the moment with no tax competition. We do not have to do what they have done in New York and New Jersey, see who can have the most towers across the Hudson River, any kind of comparison, it is possible to move a bit of the way without moving all that way, I think. It is moderation in all things, Chairman.

LORD BEST: Can I ask Tony, perhaps, but others, whether it is anticipated that Sir Michael Lyons will come up with proposals which might address some of these issues, or whether we have got to think separately from that at greater length for his forthcoming report?

MR TRAVERS: As I am sure you would expect me to say, I would be in a bad position to judge what Sir Michael Lyons is going to come up with because his entire process has been carefully constructed to give the impression that everything is still on the record and nothing is ruled out. That is where I think we still are as they write their report. The truth is Sir Michael Lyons’ report will only be, as the recent White Paper, the starting point of a

debate with Government who will make the decision in the end. It is to be hoped that Sir Michael will open the door to some of these kinds of discussion, particularly the idea that authorities might keep, or be incentivised to keep - this is a personal view, I might say - part of any extra tax yield that they can generate and then reinvest it in the kind of infrastructure which would allow a city, such as Sheffield or Manchester, to give planning permissions which lead to a higher tax base that can then be reinvested in the city to produce a higher tax base and start that positive circle going. I think there is some hope that the Lyons inquiry will go down that route and possibly towards the idea of levies or smaller taxes which might assist in the funding of new infrastructure, but that is not a question we have quite got to yet.

CHAIRMAN: Do you want to carry on and answer it even if we have not got to it?

MR TRAVERS: The two things are clearly related because the idea of creating tax based incentives which encourage authorities to develop would potentially give them an income-stream in the longer-term as could new income sources such as a one-off or short-term add-on to the business rate to pay for an infrastructure project or congestion charging or a number of other options. Any or all of these could provide the income stream which is currently missing to reinvest in cities to rebuild their infrastructure.

MR WECHSLER: Which, if I may say so, is exactly the point. Perhaps I could broaden the topic a little away from property values exclusively and just consider decongestion. At the moment if you undertake a major public transport project, such as a light rail scheme, there are substantial decongestion benefits. In Croydon, for example, there are 7,000 fewer journeys by car every day. At the moment those benefits are dispersed throughout the network. Initially they result in time-savings for motorists; eventually they convert back into simply having more traffic because inevitably the traffic expands to fill the space available. At the moment we have no obvious way of capturing those benefits for motorists and reapplying them to infrastructure investment. So far the only practical option would seem to be road pricing in some shape or form. No doubt other cities are now beginning to look at that in order to finance, in this form of a virtuous circle, their park and ride schemes and so on. Some of those issues are not relevant to parts of London, they may be more relevant elsewhere, but those are the sorts of issues that in relation to transport infrastructure in particular, just as we were discussing earlier with property values, it simply has not been made possible for local authorities to devise. The consequence of that is we are always going cap-in-hand to government for the money we need for the next phase of investment.

SIR ROBIN WALES: If you look at the one source of income that we are going to get for parking, Westminster has made a huge sum of money which is much less the case for outer London, although those who are outer maybe should be inner London boroughs like ourselves and perhaps Croydon. If we did something around the development opportunities with development, Newham is a place where we have much larger applications. That will fill up. At the moment in Newham we would be entirely supportive of property tax if it would let us get loads of money from development, but give it ten years and it will be Barking and Dagenham that will be saying exactly the same things and others will be saying, "Hang on a minute". One of the problems we have got in Britain is everything is very interconnected. London is hugely interconnected. I think the whole thing is extraordinarily complex and it is not so easy to apply some of that. It is interesting that we hear the Canadian example. We hear some things that in America they are supposed to have got large states, but the states are not that different from our country. It is a very difficult, complex area and what benefits one

is going to disbenefit others. I think that is why it is not an easy answer for us. If I knew what Michael Lyons was going to do I would be laying off bets with my colleagues in local government at this point!

CHAIRMAN: That is probably one of the reasons why we have got the city regional agenda as well but that is something we can pursue at another time. Thank you all very much for coming and giving your evidence. If there is anything you feel we have not touched on that you want to add, then please feel free to do so. If there are things that we look at when we come to finalise our report and we want a bit more information from you, perhaps you can respond if we drop you a line on that as well. Thank you very much indeed.

## **Session 2 – Commercial Property and Finance Industries:**

**Witnesses:** MR PETER MILLER, Director of Development, Westfield, MR KEN DYTOR, Regeneration Investments Ltd, MS LESLEY CHALMERS, English Cities Fund, and MR HENEAGE STEVENSON, Bee Bee Developments, examined.

CHAIRMAN: Welcome. For the sake of the record, it would be very helpful if you could introduce yourselves to begin with, say who you are and where you come from.

MR DYTOR: My name is Ken Dytor from Regeneration Investments.

MS CHALMERS: My name is Lesley Chalmers from English Cities Fund.

MR STEVENSON: My name is Heneage Stevenson from Bee Bee Developments.

MR MILLER: My name is Peter Miller from Westfield.

CHAIRMAN: You are all very welcome indeed. Thank you. I suppose the issue we often come back to with the private sector - who are here looking hopefully to be part of the regeneration and redevelopment of our urban areas - is where you think there are real barriers in the system to stop the infrastructure investment going in which enables your development projects to progress and take place. Can you tell us what you think the real obstacles are?

MR DYTOR: My background is as a private sector developer for the Crown Estate, British Land and in my own company, Urban Catalyst, but I have also been more latterly an advisor to Government, including ODPM and English Partnerships, and the GLA amongst others. For the last year I have been advising a major Japanese investment company with substantial assets throughout the world. I look at this very much from a perspective of what private sector investors want to be seeing in terms of their investment in the infrastructure. At the moment we are in a position in the UK where there are massive private equity funds available but very small amounts of those are going into infrastructure and one has to ask oneself why is that. Underlying this, it is about certainty of delivery, certainty of delivery of the projects and certainty of delivery of the cash flow. I think those are the issues that you need to address if you want to see the private sector equity coming into these projects, to give certainty. We need to be exploring how do we give that certainty and competence to make sure that equity comes into these projects.

MS CHALMERS: My company is a bit of an oddity because it was set up to address some of the questions which the Committee is looking at. It is public/private and it is 50/50. The genesis of the company comes from the Rogers Report, the taskforce on inner-cities, where it was noted that the institutional investors were nowhere to be seen and the state was largely giving grants, but not investing in the long-term. We were set up to deal with inner city areas only, long-term area-based regeneration. We have got a board which brings together Legal and General, AMEC Developments and English Partnerships, who is the founding partner. Our chair is Sir Michael Lyons, and we are working in half a dozen areas across England.

What we have realised is that in order to achieve the step-change that is needed in quality of life, communities and, of course, values across the board in areas that are assisted but are deprived which have multiple interlinked deprivation, we have got to look at a long-

term strategic set of solutions. For us, we have found that some of the lessons we have learned - we were incorporated in 2001 – are that choosing our partners has been just as important as choosing the places we work in. If our partners do not share our principles then our investment is at risk. Our principles are underpinned by the principle of place, that strong places are mixed-use, they are integrated, and you can get around them and so on. They are very old principles, nobody is trying to reinvent them. What we are looking for is partners who essentially can work with us with some stability, with leadership, and who are championing place as much as we are and share our confidence that change can be made.

MR STEVENSON: For us we bring forward large sustainable urban extensions so employment is key for us in terms of what is going to attract us and transport is key to the employment. We found that the key transport decisions are made later in the process than we would like and if they were made earlier that would bring us forward a lot further. For example, in north Northamptonshire one of the things that is being brought forward there is the A14. The area was identified for growth early in 2003 and it is only now, three years later, that we are starting to get to move towards the key decisions on a major piece of transport infrastructure there to unlock all the growth and regeneration.

Picking up on your point, again, if you take one of our developments, we have looked at doing a deal for private sector infrastructure funding and offering them a share of our land value. If you go to any of the big banks or investment houses what they say is they can deal with the market risk - the housing market is doing it all the time with mortgages and all the rest of it – but the planning risk and the infrastructure delivery and that certainty of delivery are the things that really scare them. With development, for example, the question will get asked, “If you build 3,000 houses and you have got another 3,000 to go, who is to say halfway through the government are not going to turn around and say, ‘I am terribly sorry, Junction 7 of the A14 is not going to happen for another five years’?”, and that kind of uncertainty of delivery is what scares off leverage in from private finance.

MR MILLER: Notwithstanding my accent, I have been around for over six years in the UK working in the property industry, and Westfield, you may know, is involved in some of the largest retail-led urban regeneration projects in London and in the regions. We are involved in Stratford City, White City and also Nottingham, Derby, Bradford, the list goes on. We have got about £2 billion worth of developments underway at the moment and a pipeline of about another £6 or £7 billion worth of city centre urban regeneration. Really it comes down to the biggest barrier is the timings and the delays in funding coming forward and government and regional bodies being focused on delivering infrastructure which is required in order to catalyse regeneration. I see this everywhere we go.

We are involved in big projects around cities, and there are many examples of where development has been held up because infrastructure has not been put in place. Developers, many of us, require that infrastructure to be put in place proactively in order for that development to be successful. You cannot be close to the point with retail because retail rarely requires transport, it requires people to either get there by modern highway systems, public transport and more so with the sustainability agenda high on the hit list for councils. Often developers cannot get approvals from local authorities unless a case is put to those authorities which demonstrates that the customers and the trips that are going to be generated to that development can be sustained with the infrastructure that is in place.

With the large projects that we promote there is a certain amount of

infrastructure that we can provide, and we do provide millions and millions of pounds worth of infrastructure as part of our schemes through Section 106 and we do that very successfully, but we cannot cover it all. A lot of the infrastructure is not product-specific, it is broad-based, especially in the regions. The regions are probably poorer to a large extent in terms of the relevance and the state of the engineering of that infrastructure. The 1960s and 1970s were characterised by highway engineer-led designs of our cities and you can see a lot of that in all of the cities you go to. In Birmingham a lot of that has been undone but there is still some of it left. In Nottingham, for example, where we were quite active obviously, there are a lot of viaducts and highway systems that were designed by highway engineers in the 1960s and 1970s and all of that needs to be unbolted and reconfigured. It is not purely associated with a project, it is broadly the fundamental foundation of that city and how it works.

As I said, we can fund some of it but not all of it. At every level of government, at the regional level, everybody being focused on delivering is what is important, and I think those decisions need to come out from a local level because it is at a local level that the authorities and the Regional Development Agencies understand what needs to be delivered. There seems to be a complete disconnect, that the money is being provided by central Government but it does not necessarily understand the local issues, whereas the local promoters are usually unanimously behind some of these developments struggling to get the funds there.

LORD BEST: I was not quite sure whether there was a difference between the previous group of witnesses and yourselves in where you felt the emphasis should lie because quite a lot of your anxieties are about local authorities not performing, not coming up with a timing that works in terms of planning approvals, not having the strategic vision, as opposed to the previous group which was saying, "If only local authorities had more powers and, of course, the resources behind them it is at that level that things will work". I am teasing out whether it is the age-old public/private dichotomy, the two sides being at loggerheads, that slows things down and therefore whether the things that Lesley is doing, for example, that brings people together are really critical, trying to get relationships to work, or whether I am exaggerating the tensions here which exist between those who want more powers for local government and those who say, "Local government is the problem, it is getting in our way of doing the things we want to see done".

MR DYTOR: One of the areas I would certainly like to see an improvement in is financing going into local authorities as opposed to central Government, using tax increment financing arrangements which I think would work very well. That would mean effectively the ability of local authorities to raise funds on the back of future taxes. That then would give the confidence to financiers to come in knowing that there was an income stream that they could secure their investment against and that would be crucial.

The other area I would like to see an improvement in relates not so much around the complaints against local authorities. Although they are often much maligned, agreed there are certain issues to be raised there, but if we talk about infrastructure it is that there is a need for a regional infrastructure audit to look on the larger scale at what is deliverable in the next ten years, what finance is needed, what resources are needed, and then put in place a Public Private Partnership taskforce possibly with English Partnerships coming in to provide the resources to support local authorities to make sure that infrastructure is delivered.

In some cases with these large comprehensive infrastructure schemes the responsibilities on local authorities are often too great and we ought to be supporting them, one by giving them financial powers but also by giving them the resource support through some sort of regional taskforce structure. Interestingly enough, in Germany, where they are quite a few years behind us in PPP, they have now set up a PPP taskforce and they have got a massive PPP roll out programme and I believe that probably we will see them overtaking the UK in terms of PPP delivery.

MR MILLER: I agree with Ken on both the points he made. Certainly working in Nottingham, particularly, we were challenged - not dissimilar to our colleagues from Croydon - with the debate over how the next two lines of the tram are going to be provided because line one has obviously been installed and is very successful and, being long-term investors, Westfield is very much concerned with the long-term success of cities so we got involved in this debate, how do we fund the next two lines of the tram. There was a discussion about introducing road-user charging or workplace parking levies and we said, "That will destroy the life blood of the city because, in effect, you cannot put the cart before the horse, you have got to make sure the infrastructure is in place before you can start pushing people on to public transport because if you have not got the infrastructure, the fundamentals fall apart".

We have started looking at ways and means, and we had the discussion about business rates and whether in a successful city situation you could temporarily divert some of the business rates into funding infrastructure, because if a city is successful and is able to promote regeneration it should be rewarded by allowing it to ring-fence some of those rates to use for infrastructure to promote further advantages, further regeneration, only for a fixed period of time and not do the Treasury out of those funds altogether. I am not sure there would be a lot of resistance to that. There is a formula. If you look at major regeneration projects, you can be talking about amounts in the order of £50, £100 million if you ring-fence it for five, ten years or thereabouts. I think there is definitely an opportunity to do that.

Certainly we do not buy into the whole notion that local authorities are not capable of dealing with this issue, maybe it should be dealt with by RDAs, because it might give it a more regional perspective, or English Partnerships, as Ken has suggested, because perhaps we need to spread some of the benefits around a little bit more within the regions and not allow the stronger cities to get too much stronger. That is a debate to be had in due course. I think it is important also that those who are given the powers to distribute these additional funds that are raised understand in intimate detail the priorities that need to be set for those regions so that there is no conflict between the various councils or the various bodies. It is important that there is a balance between both the private and public sector needs as well.

MR STEVENSON: If I can come back to the loggerhead point. I do not want to overplay it as we are not at loggerheads with the local authorities at all, what we are struggling with is agreeing a route with the local authorities and then having to go to government at a number of levels, borough, council, district and national, and also across several different departments, and seeing that you have got to get each one on board separately and that is incredibly time consuming and difficult. Certainly when it comes to the question of devolution, there will be some things that one can devolve, there will be other things that one cannot, but at the same time as looking at devolving things I think there has got to be a lot of work on co-ordinating all the different government departments and national and local governments a lot more effectively. In something like the cross-cutting reviews,

you started to do that and I think that needs strengthening up; that is a very healthy thing.

MS CHALMERS: Me too, I have no problem with local authorities. Those that do it well are brilliant and they are the ones we want to work with, but they are all in a different place and are all made up of different people at different stages. I think there are some issues around risk-sharing which we probably agree on. ECF was set up with English Partnerships taking first risk but getting a much bigger share of the returns if we do well. There are lots of ways of structuring these partnerships and there are some very healthy ways perhaps that when it comes to timescales, for example, local authorities can help in the early stages, and lots of ways too, if we started to look at incentivisation, of capturing some wealth and we could really add to the investment pot for cities and towns.

The Spinningfields in Manchester, which I live close to, is three million square feet, I do not know what the uplift in business rates will be with that but it will be about the same as the project we were working on in Saint Paul's Square in Pall Mall in Liverpool, it is that scale of development. It will uplift the business rates in the city enormously. None of it comes back to the city. That really is an impediment for all of us trying to work together to market that city and that region because it has to be the whole thing for inward investment, whether it is somebody coming for a day trip or a cup of coffee or a weekend or to buy one of our buildings. We are building speculatively there with just the same sort of success as Allied London is in Manchester. It is finding a way to incentivise that success to capture some of the wealth to feed it back in. The Transport Innovation Fund should offer a way to do that, to look at something which is going to happen over a number of years, that the private sector locally could join in with but would allow reinvestment in the city and address, of course, the issue of congestion which has to keep up with investment.

Manchester's success could be choked if it cannot look at an integrated solution to transportation. Sorry, just a bugbear, we are talking about transport and we should be talking about movement and not just of the vehicle but, of course, people in the cities we look at in Europe and the States. I have just been looking at Jersey and Boston too and there are very, very interesting lessons there. We have got to think about those principles of place again.

My final point on that is that the European Union is also looking at structures and risk sharing with the public and private sectors - ECF is an interesting example for them in that way - and taking the longer-term view of the state investing alongside with risk being managed sensibly while we have been trying all the time to obviate it takes collaboration. I think it was the previous panel that brought the who word into power and that is very important.

CHAIRMAN: To pick up the point without being too cynical, if people were looking slightly askance at the public and private sector, from what we have heard so far, being in complete agreement, basically you would rather like the public sector to be paying a little bit more to enable your developments to happen and the public sector would rather like to find ways of getting more tax out of all your private sector developments to enable them to fund the infrastructure which will make your developments happen. Is there any conflict there at all? Are you giving more public funding or as an industry are you willing to put more money in, in other words to put part of your development gains into the pot which will enable development to proceed?

MS CHALMERS: I have a view and that is that we are taking a place which is not

working, where values are low, there is often no market at all, and we are changing it into something which is thriving, healthy, people want to live there, communities thrive there, whether it be business or other types of community, there is something in that success for everybody, and we can share that between the sectors and the different stakeholders. I have not mentioned rail, perhaps because it will not do my blood pressure any good, but in terms of encouraging us to collaborate, to take a longer-term view to work together towards making that successful place and that successful economy, we have a number of organisations, not just rail, I am thinking of parking organisations, who have a short-term balance sheet, a narrow, partial view, and that has been a big, big issue for us in places, for example, like Wakefield where we tried to move a station into.

MR MILLER: It comes back to the point that infrastructure is needed upfront as a catalyst for development. From a development industry point of view, I do not think we shy away from paying huge amounts of money towards infrastructure, towards local impacts, changing highway systems and building trams, for example, in the Black Country. At the moment Westfield has pledged £36.5 million towards the metro. The metro has been debated in the Black Country now for about ten years and that is not coming forward. We have just heard recently that there is going to be a delay to decisions to provide the metro which is going to benefit and create regeneration right through the whole of the Black Country all the way from Brierley Hill to Birmingham New Street Station. Why is it taking so long to make a decision like that which has got obvious benefits socially, in education, training, jobs, et cetera, all the way through? That is what we obviously cannot come to terms with. We are not shying away from putting our money where our mouth is. In every city that we are working in we have been putting tens of hundreds of millions of pounds towards infrastructure. What we are saying is the Government needs to find a mechanism, or a series of mechanisms maybe, which provide expedient, timely and proactive funding towards infrastructure. That is not what we are seeing happening, we are seeing that we are having to push it along. It is quite a frustrating process to see the opportunities that are out there from the development industry's point of view being delayed and delayed and delayed by many, many years because of a lack of co-ordination across all levels of government, all levels of public authorities, where we are waiting for some of this infrastructure to come forward so that major regeneration projects and major public benefits can flow.

There is a very good example currently underway of how we are going to see the advantage of infrastructure going in and that is down at the Channel Tunnel Rail Link at Ebbsfleet, leaving aside Stratford which is obviously going to be a great success. Ebbsfleet I think we will see over the next year being transformed as a location purely on the back of the Channel Tunnel Rail Link and then the liaison between the various local authorities, private sector developers and investors. We should use this as a very good case example of how putting a comprehensive, very efficient infrastructure into an area can improve the fortunes of it. On the back of that, we can then see the cash flows coming out that will help fund whatever innovation we are looking at, be that TIFs or bonds, et cetera, which can be used to fund these infrastructure schemes in the future.

LORD BEST: If you had to choose between the money from government and the processes - the speedy planning consent, the strategic framework, the approvals that you need - where is the balance between those two? This patient, long-term money is sitting there ready to go and often it may be enough. I am asking really, if you had the clarity, the decision-taking, the approvals that came through from the public sector side, is that really the key or is it the money and you can wait and not worry too much as long as the Government is

going to come up with the cash? Or would you never be able to choose between those two, both are essential ingredients?

MR STEVENSON: I think the two are totally interdependent. The more control we have over the planning process, the more we know that it is a clear road. If we take a scheme of 5,000 houses and commercial and all of the rest of it, and we know that we are not going to get stuck or made to slow down, in developing that over a ten-year period we need less money and we can raise a lot more money privately, so the more control and certainty that we have, the more involvement in the provision of key infrastructure schemes we have, the less money we need. Equally, there are always going to be one or two very major pieces of infrastructure in large-scale development that are partly to do with the redevelopment but more to do with growing a town, say, over a 25-year period and without serious public funding put into the one or two key pieces of infrastructure, nobody is going anywhere. I know that is not really a direct answer to your question, but I would be interested to hear if anybody can give you an answer!

MR DYTOR: I think government should give primary legislation that brings about the changes to allow local authorities to raise funds against which they can then secure finance from the private sector. That would be a massive step forward in my opinion.

MS CHALMERS: I agree. I think it is about changing the processes so that there can be investment instead of just handouts, we do not want handouts, we do not need them. What we need is some focus on making places that work rather than places we are having to intervene in all the time - we do not need handouts - and making healthy places long-term.

MR MILLER: I think there is a nexus between the two, in that if you look at what we have been talking about, tax incremental financing or the notion which I have put forward that I can give you more details of, I do not think anybody loses in this virtuous circle. If the Government has the confidence that the industry is going to, I suppose, regenerate, develop and create economic benefits and development then they should put the money forward and, in return, the development industry at large will create revenues because success breeds success. I think that if development occurs there will be more business rates. The money that was put forward in the first instance to act as a catalyst, the environment that was created to enable planning approvals to occur - and we are involved mainly in comprehensive regeneration so if we get one planning approval, it pretty much sees the whole thing through - the environmental planning approvals, the funding put upfront from a catalytic point of view, business rates will flow, some of that is kept to enhance future growth and opportunity. Then it flows on from there, taxes will increase, VAT will increase because people have more money to spend, it is a virtuous circle I think. You have just got to get on the roundabout.

CHAIRMAN: Thank you all very much for coming this afternoon. As I said to the previous witnesses, if there are things that you feel we did not touch on or you want to add to your evidence, then, please, let us have that information in due course, or if there are things that we find when we come to write our report we need a bit more clarification on we will probably drop you a line as well if that is okay. Thank you very much indeed.

### Session 3 – Think Tanks

Witnesses: MR CHRIS LESLIE, New Local Government Network, MR JAMES O'SHAUGHNESSY, Policy Exchange, and MR ADAM MARSHALL, Centre for Cities, examined.

CHAIRMAN: Good afternoon. Welcome to the final session of our hearing this afternoon. You probably know who we are but I am Clive Betts, MP for Sheffield Attercliffe, and Lord Richard Best is with me taking the evidence this afternoon. Perhaps, for the sake of our record, you could introduce yourselves at the beginning.

MR LESLIE: Chris Leslie. I am Director of the New Local Government Network.

MR O'SHAUGHNESSY: James O'Shaughnessy, Head of Research at Policy Exchange.

MR MARSHALL: I am Adam Marshall, a senior researcher at the Centre for Cities.

CHAIRMAN: To begin with then, perhaps you would like to address what you see as the key issue as to where power lies currently in the funding for infrastructure in this country. We have had comments already that the whole process is pretty centralised, there is a belief that more power should be at local level and that there should be more co-ordination amongst the various players in terms of doing something about the fragmentation from the extremes that currently exist. Is that a perception that you have and what would you think should be done to change the system to deal with those particular issues, Chris?

MR LESLIE: The histories of unlocking capital are so complicated, certainly investment resource that government is related to, that it is difficult to tell how much is political, how much is sort of organisational spaghetti and just burdens the machine so that it slows right down and how much is technical balance sheets, fiscal consideration. I think all these elements of policy link together and have slowed down the clarity of policy which we now need to regain. Certainly we are all fairly hopeful and optimistic that the Comprehensive Spending Review, in particular, will look at this particular question because it is not just an issue of finding a great chunk of public money, as has traditionally been the case, and investing it straight as capital spend in a particular scheme. We are now in an era where private finance initiative, the PPP agenda, has really shown, certainly in the UK, great things can be done, but we are now, I think, starting to look at other options, in particular the tax increment financing arrangements, how to essentially capture value from future income streams and securitise, borrow against those and put in upfront infrastructure investment. Those are the really interesting bits of policy where you need national government to clarify and simplify the arrangements and almost say, "It is okay to do this", so that local authorities, which are, in my view, champing at the bit to really get into this, just as the private sector is as well, are given their head and allowed to be creative and allowed to go out and do some of those deals, so it is an exciting moment but we are still waiting for clarity at that national level.

MR O'SHAUGHNESSY: Your point about localism is an interesting one because everyone kind of espouses it in one form or another, but it is worth reminding ourselves why people are doing so and the scepticism about centralised funding infrastructure. By 2010, for

example, Heathrow, our primary airport, will have fewer runways than all the other major European airports, our infrastructure life expectancy is more or less the oldest in Europe and in terms of building, say, a dual carriageway, it costs about three times more in the UK than it does in France. We have a highly centralised system and I think it is clear that it is not working particularly well and, therefore, the scepticism about the role of central Government is justified. On the other hand, if you look at the local authorities you see often a quite clear anti-development culture. I think a large part of that is due to the fact that local authorities do not reap the benefits from new infrastructure spending and in terms of business rates or in terms of attracting new residents, quite often it costs them more money than they end up reaping because of equalisation. It seems that, in a sense, we are stuck between a rock and a hard place: on the one hand, central Government is bad at delivering things; on the other hand, there is a problem with local government's willingness to develop, particularly in areas which are seen as the engine room because there is pressure on housing, on school places or whatever it is.

Somehow we have got to try and reconcile both those factors because clearly there are things that ought to be delivered on a national level but there are things that ought to be delivered on a local level, so a quick question is: how do you go about changing the mindset and capabilities at each of those levels? Do you go, for example, using primary legislation to force through things like new terminals? It is worth noticing in the period we have been talking about building the fifth terminal at Heathrow, Hong Kong has managed to build an entirely new airport out of the sea, and that suggests a kind of willingness and a lubrication within the system that is completely missing in the UK context and it is a real problem for us.

MR MARSHALL: I would agree with a lot of what both Chris and James have said, but I want to add three additional points. The first is one about scale. We are not very good in this country at considering the scale of particular infrastructure projects when deciding how to implement them and how to fund them. You will have Department for Transport officials talking to local councils about individual bus lanes, which is completely ludicrous, and at the same time you will have a sort of a vacuum when it comes to some of the very big, major national infrastructure projects that we want to see, for example things like Crossrail which has been almost two decades in the planning but as yet not been delivered. There are things that do require a national input and a certain level of national control in terms of delivery. We were talking about high-speed rail, the Channel Tunnel Rail Link, Crossrail or, indeed, new airports and strategic airport sites, but at the regional and local level you have this sense of huge frustration over things like trams, commuter rail services, buses and individual brownfield sites where people want to put the infrastructure in, get the private sector moving and watch the values grow. If central Government were less involved in those regional and local decisions, I think we might see faster movement.

The second point is confusing funding and delivering. I think this is really related to the first, in a sense. Central Government, as a funder, needs to think of itself in that way rather than as a delivery body. What we do see in a lot of cities and towns is central Government involvement at every stage of the process. Perhaps central Government needs to try to experiment a bit more, put funding down in certain conditions, step back and allow local and regional bodies, especially city regional bodies in the case of conurbations like Manchester or Birmingham, to deliver these solutions.

The final point is about results. I would wager that if we did see greater local control, especially at the city regional level, of some of the big conurbations, we could see faster delivery, greater efficiency and more responsive decision-taking, more responsive solutions, we would see more innovation and more pushing of the boundaries. That goes for sites and transport infrastructure and productivity.

LORD BEST: A really important point I thought from James was about the public's views of transport infrastructure and development in general. We have had the frustrations from local government, the frustrations from the private sector, everybody is frustrated and that frustration is being vented mostly on central Government, is it not? They are saying, "It is yaboo. They are not devolving powers. It would all be well if they would back off and be more helpful", but behind central Government they know there is an electorate and, indeed, behind the locally-elected councillors at the local level there is the general public. The fact that in this country we do not really want houses next to us, that is for sure - I could go on endlessly about that - we certainly do not want any roads coming through here and more roads just mean more traffic and more transport. Is there a fundamental problem, which Hong Kong clearly does not have, or a fundamental difficulty that is the elephant in the room which is bigger even than the processes local government are part of and the financial arrangements the private sector could be part of? I thought that was pretty fundamental.

MR O'SHAUGHNESSY: There is obviously a huge anti-development culture generally in the UK and it is one that if you look at the planning system, where Policy Exchange has done a lot of work, what you see is a system which is geared to seeing development as a problem and stopping it and it gives a lot of voice and power to the people who are basically already benefiting from things like infrastructure or housing and so on. They might be homeowners or living near a railway station, a tube station or whatever, but it gives a very small voice to those people who are not benefiting, who tend to be poorer, younger or much older. Part of the problem I think we have is, as I say, a lack of equivalence between those two and it is quite natural. In fact, looking at one of the small ways in which we behave, there might be a small gap on the tube because it is all congested, you get on and think, "Right, everyone should move up to let me get on". Someone else tries to get on and you think, "Well, hang on, there is no room in here"; you put your elbows up. It is the same sort of thing: those who are in possession do not necessarily like sharing.

The Government obviously has a huge responsibility not to act as a user, a support group or an outlet for those types of people. It needs to be incredibly focused on those who are not sharing those benefits. My feeling is that the way that the government is geared is not conducive to doing that. I would suggest the reason for that is an issue that was touched on before which is about tax competition and competition for inhabitants. If you look, as we did, in Germany and Switzerland for different reasons they compete vigorously over the number of inhabitants and the number of businesses they have primarily because, in the case of Switzerland, they set and keep most of their own taxes and, in the case of Germany, they get revenue grants on a per capita basis. In the UK only about 15 per cent of local government funding on average comes from local sources and often they do not catch up with changes in population or profiles in the business community, so there is no incentive. You do not have competition or a given area competing over residents because it will allow them to spend money on infrastructure or cut their taxes or whatever is decided locally and, consequently, the system grinds to a halt.

MR LESLIE: I think again you cannot pull out the politics from urban development and this is very true in terms of the voice that is heard at national and local government level as the two primary poles from which the democratic process exerts itself. Sometimes at a national level national politicians look at local government as a mechanistic problem not realising that it is just as political, often more so, than the national executive, the national legislature. If there is a political competition over whether somebody is pro or against building on a greenfield site then we should not be surprised that would not happen in the Hong Kongs or wherever as much as it does here, and perhaps that is a good thing. I think the difficulty is trying to accommodate that legitimate political debate and the right for decisions to go positively or negatively but done swiftly in a fair, transparent process which is as stable and as predictable as possible.

From the evidence sessions you have had already the two things that came out very strongly I think were what level of stability can we get in public policy in order that investors can see a certain degree of certainty and can reduce liability and risk and, second, how many forms of delegated revenue streams can be accrued that local agents can get hold of for that creative spark at a local level, which is often too distant at a national level. Like James, we have been working on all our evidence, the lines of inquiry, whenever that eventually comes out, and again I mentioned the Comprehensive Spending Review that I am sure is going to be the key moment. We have also been advocating elements of what I would call “tax motivation” or “revenue motivation” rather than tax competition. I think a big difficulty is that there is a big grant dependency issue, if we are really honest about it, where the relationship is between a little brother local authority and a big brother national government. The motivation is to find out whether the minister is thinking about a grant formula rather than to be motivated to look at those people paying the taxes, contributing the revenue in that very vicinity, how many jobs are we creating; if we create more jobs we create more income tax payers, those income tax payers will give us revenue streams against which we can do wonderful, creative things. Ditto for elements of property revenue and the same for environmental tax issues and so forth. Our argument is very much that we need to start assigning much more of this revenue directly to local government in a politically pragmatic way not necessarily needing local variations or all those other more political difficulties but just assigning elements of revenue a bit more predictably so they are available rather than have everything go through the Treasury, as has historically been the case.

MR MARSHALL: I do not think I could agree more on the point about incentives and a little bit more on differentiation and variability when it comes to taxes and revenue-raising mechanisms. Without the ability to experiment and take risks, a lot of our major cities and smaller local authorities as well will not be able to put together the solutions that they need to fund infrastructure. It all comes back to things that we heard in the previous witness sessions about the link between taxes and place. Specific taxes, like property taxes, are very much related to the place that they come from and watching all of the business rate go into a national pot for redistribution completely removes that incentive on local authorities in our major cities to create a virtuous circle of development. Without that virtuous circle I do not think we are going to see a change in this culture of risk averseness, this culture of greed if you want to go as far to call it that, which we have at present.

The second one I want to make is about accountability for some of these infrastructure decisions. It is interesting that Transport for London has a £10 billion investment programme right now and if you stop the man in the street and ask him, “Who is responsible for transport in London?”, most people will be able to tell you it is the Mayor of

London who is responsible for the transport network, for most of the rail to bus services, et cetera. I think that is a very important point. When you go to the other major cities around the country, whether it be Sheffield, Glasgow or Newcastle, you do not have that level of accountability, people do not know who runs the system, who politically has responsibility for it and how it can be better linked in to public decision-making and the public process. Essentially, everything then boils back down to a national referendum, “Central Government has not put X in in terms of infrastructure. We do not have our tram. It is their fault. Let us punish them at the elections”. This is not the way to run this particular element of our democracy. By localising some of those funding decisions, some of those incentives and some of those tax choices we can create more accountability at the correct level.

CHAIRMAN: Could you say a bit about tax increment financing which you raised in your evidence and how you see that assisting this process?

MR LESLIE: I think several others have talked about capturing value from some elements of the regulatory regime that we have, whether it is from planning or giving permits for people to travel around, congestion charging or all these other elements of the regulatory arrangement that you can monetarise effectively, which you can put a value on. The debate about Section 106 and the Planning Gain Supplement and whether this is going to be, essentially, a nationalisation of an element of value that is currently being captured at a local level through Section 106 is right at the heart of this particular issue. What I think we need to really work on is persuading the Treasury in particular that, first, it is possible to hypothecate elements of revenue in a safe way that will not undermine national fiscal stability generally and we will still be able to commit our troops, spend on all those other major things that need to be, pay off the national debt and all those other elements, but that hypothecation is plausible.

Secondly, we need to get clarity over some of these balance sheet issues so that it does not just rest with the centre but we have even clearer rules. We are glad we have got a certain degree of clarity through the PFI process, but we are still not sure about borrowing when it is secured versus unsecured borrowing and there are big issues that need to come out there. We need to experiment with a few of these smaller revenue streams in ways that do not necessarily become politically contentious at first. Political contention comes when you are talking about levels of taxation, new taxes versus no new taxes and there are elements of revenue, as I said, that currently exist which you can localise, even taking account of equalisation questions and allowing a little bit of flexibility to come through so those future tax increments can unlock finance for today’s infrastructure.

CHAIRMAN: Touching on an example we heard previously, you have got problems mentioned when an area wants to build a tram. It recognises congestion charging may be part of that package but it does not want congestion charging before it gets the approval for transport. In your scheme, therefore, it could borrow against the future congestion charge funding which will come into it later on in order to forward fund public transport.

MR LESLIE: This is what happens. The American experience is running away with these ideas. The arguments against that traditionally are if you assign all of this future income stream to pay for today’s infrastructure you are not going to be able to always tell today the kind of costs that are going to fall on you tomorrow, so it is easier, I think, sometimes to talk about this in planning terms. If you want to build a new road or rail system and you say, “This is going to create a billion of extra business rates revenue, therefore, over 30 or 50 years

that billion should be used to pay for that new rail facility”, the problem is you cannot tell what sort of education pressures, health pressures, other service pressures might come from that growth as well as the basic rail requirements and it is how you calculate that. That is where the controversy has been. That is the argument against it, but I do not think it is a very strong argument because I think you can always be pragmatic and conservative with a small “c” about what elements of future revenue you dedicate, you do not necessarily have to dedicate all of it, but you can bring forward some of that today.

MR O’SHAUGHNESSY: I think you would also want to use the capital markets and the liquidity of the capital markets and their expertise to do that. The UK under-invests and under-borrows and local authorities under-borrow, if you compare us internationally with the way we were historically, probably to the tune of about £30 billion over the last 30 years. That led to borrowing to spend on infrastructure, so it was capital spending rather than a recurrent spending. I think there is no reason to suppose that we could not move to a situation where we were borrowing small amounts more, relatively in terms of GDP, and that would not affect the balance sheet of the UK in a huge way. If you compare it with somewhere like America, for example, we drastically under-borrow. I have suggested that is a huge problem at local authority level in terms of providing the infrastructure because you are not able to capture the expertise of the capital markets which are able to make the kind of judgments you are talking about and structure the debt properly. Consequently, we do not get upfront investment, we tend to almost have to save up to invest whereas what one would expect in a relatively normal situation - or most other types of government - is to borrow against future revenues and for that to be secured, as I say, in capital.

MR MARSHALL: I think the key point is there are a number of different mechanisms that can be used at a city or city regional level to fund infrastructure. Tax increment financing is one, and it is one that is quite palatable to a lot of stakeholders, such as business for example, because it does not mean an additional burden on their tax bill. On the other hand, you do have things like supplementary business rates at a conurbation level which could also be used with the buy-in of the business community, if you look at projects like Crossrail where business already indicated it was willing to pay a portion of the cost, and in some other conurbations businesses have said, “We are willing to make a contribution”. Some of the work the Centre for Cities did, for example, around supplementary business rates in the Birmingham and Manchester city regions show you could raise about £35 million per annum by putting a couple of pennies on the business tray. Business said to us, “We would be interested in that because we could fund an entire tram network based on a stable revenue stream like that, but we would want a hand in the decision-making”. There are ways to do this and there are ways to use both additional tax mechanisms and also to borrow against future revenues without additional taxation that could help get over this disconnect in timescales and this problem of not having the infrastructure upfront prior to development happening. I think if we look at ways to take a number of these mechanisms, bring them forward for use and see which local authorities do use them and then use their best practice to spread the gospel more widely, then we would be on to a success.

LORD BEST: We are okay that a council today could sign up for a deal that commits their successors and their successors’ successors, are we? Because that is the essence of this, it is not now, it is later. It means, in terms of the electoral processes, the people who sign up for that deal are not going to be around but they have committed the extra business rate or the congestion charge for the 30 years. We are okay with that, are we? There is not a kind of heavy-duty, constitutional, legal bill?

MR LESLIE: This is the whole controversy of PFI and PPP, it is the same issue but in a different way. My argument is not that we should sequester all that future revenue and blow it all now but the right proportion can be done in a sustainable way and it should not be rocket science in order to figure out what that proportion is, after all the British state has been borrowing for the last 200 years plus in different forms. I would not quite go down the American route because I think at some point there are issues about the sustainability of the American fiscal position. We are in quite a healthy state here in the UK and we can afford to be a little bit more flexible.

MR MARSHALL: The beauty of a lot of these mechanisms is that by their very nature they are to be used sparingly, I think. Politically, they are difficult to use; in terms of buy-in from stakeholders they are difficult to use. To get a tax increment financing project going on a big scale will take a while to do, there is a lot of resource, a lot of political capital, as it were. They are not going to be used willy-nilly to clutter up the balance sheet and prevent further investment later, and I think that is why we should encourage the experimentation.

MR O'SHAUGHNESSY: For all the reasons that Chris was talking about, not having to massively change the way the local government finance is structured, if you put the incentives in the right way, even if you use exactly the same tax base but localising it, that in itself will give financial power to the local authority at city level, or whatever it is, that simply does not exist and I think would change the mindset. Then you have people in positions of responsibility who are much more willing to take small risks, and as in most areas are not going to be building tram systems or whatever it is, it is going to be small risks they can probably afford without huge impact.

MR LESLIE: The one word of caution that I would always put down at this point is that the wealthier an area is today the more likely it is to have a lot of high-paying business rate properties and high-paying council tax properties demand new investment. The poorer an area is, of course, it does not have that same resource base available, so we have to be very careful in designing these systems to recognise issues of disadvantage and deprivation. In a way, we have got to deal with this question without stoking already very hot economic hot spots versus somehow creating new capacity in areas which really need regeneration from a much lower base. This really does impact on the design of any tax increment financing because you have to unlock elements of revenue in a fair way so that areas which do not have the same quantum are still able to unlock as much potential as other areas which are very fortunate.

CHAIRMAN: One final point. The planning systems often mentioned in dispatches as being the problem by some developers - I am not saying by all developers but they just blame the planners, "It is planners again, it is the system again, we cannot do it" - we mentioned before some reservations I think James had about processes here but also the price potentially gives a great deal of certainty. I refer to my own city of Sheffield where we adopted a very vigorous policy of refusing out-of-town development. Meadowhall would love to expand, big financial investors are always applying for this, that and the other or always suggesting for this, that and the other. The council planners, quite rightly in my view, have said, "No, we are going to enforce PPG 6 absolutely". Therefore, there is now the confidence for a major half a billion pound shopping development in the city centre, because the developers there know that the council's policy is very clear, they want the development

there and not out of town. Therefore, the process can have positive benefits by being restrictive in some ways.

MR O'SHAUGHNESSY: I would not disagree with that. The point is that what you want to stop would probably try that route in another town or city, creating competition as to what succeeds. Despite the fact that we looked at the planning system extensively in our research, we come to the conclusion that planning systems are almost - dare I say it - irrelevant. Compared with somewhere like Germany, they are famous for being incredibly complex in their legislative structure and taxation and so on but because the incentives are very clear the planning system, despite, as I say, having incredible amounts of layers and complexities, gets used for the right purpose - I would not say for the right purpose - but for a pro-development purpose. Then it comes down to the question of strong local leadership. Where at the moment I would say the problem with the planning system is that it is capable of being used in order to stop development altogether, not development in certain places but any development at all, that is primarily because of the lack of incentives that exist which make development not pay. I think the Treasury probably understands this better than anybody, ironically, given the topic we are discussing today, because at a national level if you have areas which do not want to develop that is a huge problem, although at the local level that might not seem a problem because the people especially in successful economic areas who are currently doing well, they are doing fine, but they are not thinking about the outsiders, the people not getting a chance to come and live in an area and benefit from jobs in this area.

CHAIRMAN: Thank you very much indeed for your evidence. If there are things that you think we have not covered and you want to, let us have it in writing and we will be happy to receive it, or if there are things we identify that we need put in our report that we need further from you, we will probably drop you a line as well. Thank you very much indeed.

**ENDS**