

7th January 2016

Lord Adonis
National Infrastructure Commission
1 Horse Guards Road
London
SW1A 2HQ

Submission from Westminster City Council to the National Infrastructure Commission

Dear Lord Adonis,

Westminster City Council is grateful for this opportunity to contribute to the work of the National Infrastructure Commission and, as the local authority at the heart of the UK's global capital, we hope that we can form a strong and constructive relationship with the Commission moving forward.

Central London is the engine of the UK economy: Westminster alone functions as a national and international centre for business, shopping, arts and culture and entertainment; houses over 600,000 jobs, 15% of all of London's employment; and generates 4% of UK GVA. Infrastructure is critical to maintaining and enhancing this contribution for the benefit of UK plc: it is essential that efforts to define strategic infrastructure priorities should properly reflect the national importance of the centre of London and that this is reflected in a locally responsive and sophisticated approach to infrastructure investment in the capital. The role of London boroughs, including Westminster, in steering this investment is critical.

This response is a brief contribution on the strategic options for future investment in large-scale transport, including public realm infrastructure improvements across London and energy supply and resilience.

This year, London surpassed New York in the Global Financial Centres Index, claiming the no. 1 spot.¹ However, of the ranking criteria London's infrastructure is rated as underperforming, potentially casting doubt on the perception that the city is serious about its growth ambitions.

Transport and public realm infrastructure are critical to enabling and facilitating the planned growth required across London. Devolution of Government finances and powers will play a key role in making this happen. Westminster City Council supports the significant investment being made in transport and public realm infrastructure in response to increasing residential and working

¹ The instrumental factors used in the GFCI model are grouped into five key areas of competitiveness (Business Environment, Financial Sector Development, Infrastructure, Human Capital and Reputational & General Factors) http://www.longfinance.net/images/GFCI18_23Sep2015.pdf

populations and London's continued global-city status. However, the future of London's transport infrastructure is not limited to high-profile, large-scale investments, but also depends critically on improving the way in which investment in existing infrastructure is prioritised, directed and delivered. It is essential that the planned reforms to the local government finance system, including the larger role envisaged for boroughs in the commissioning of capital projects, provides London with the fiscal autonomy to weigh up competing priorities and direct public and private investment in a way which maximises benefits relative to costs.

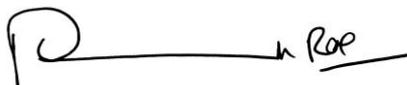
In particular, boroughs could significantly enhance the potential benefits of large scale infrastructure investment **if long-term, predictable and real financial incentives are made available**. Areas such as the West End of London, the economic and cultural heart of the capital, provide particular opportunities to leverage investment through innovative thinking. Westminster City Council is working with partners, including Transport for London, the Greater London Authority, the London Borough of Camden and the private sector, through the West End Partnership to provide greater strategic leadership and a common voice for the West End. We outline below some ideas on realigning growth incentives and leveraging investment in key infrastructure schemes in the West End, in conjunction with the opening of Crossrail 1 and the development of Crossrail 2, which we would be very interested to discuss further with the Commission.

Similarly, a secure, resilient and planned energy supply is a critical factor in London and Westminster's growth. The resilience and sufficiency of energy supply is a major reputational and practical risk to economic growth and performance in the West End in particular, with theatres and other businesses experiencing power outages and major constraints placed on future growth and development by insufficient energy supply. Over the past year, the Greater London Authority has worked with the Number 10 Policy Unit, HM Treasury, the Department of Energy and Climate Change, UK Power Networks and the Core Cities to develop potential new arrangements for the required investment, discussed further below.

An integrated approach to both these issues will be essential to meeting the economic, environmental and social demands of a rapidly growing global city. We look forward to working with the Commission on these challenges and we would be very happy to meet and discuss our response in more detail if it would be helpful.

In the meantime, if the Commission has any questions or would like more detailed information or analysis on any of the points touched on briefly below then please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Roe', with a horizontal line extending to the right.

Cllr Philippa Roe

Leader of Westminster City Council

Transport infrastructure in London

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

The economic and social challenges facing London are well articulated in various strategic documents, including the Mayor's London Infrastructure Plan 2050 and Westminster City Council's City Plan. Key points include:

- The number of people who live and work in London is rising rapidly. In February 2015, the capital reached its highest population ever – 8.6 million people – and is set to grow to 10 million by 2030. Such significant growth means that large amounts of development will be required for the foreseeable future, including in areas such as affordable housing and transport.
- A clear set of policy approaches will also be required to address the socio-economic and environmental challenges that will be created or exacerbated by this rapid growth. These include the potential for a growing polarisation of the labour market and skills gap; addressing issues around air quality, climate change, heritage and residential amenity; and ensuring that investment – including foreign direct investment, on which London's comparative position has weakened in recent years – is directed to areas of need.

The density of activity and daytime population of central London means that it is particularly impacted by these points; at the same time, however, there is significant potential for well-targeted infrastructure investment in central London to help address these issues across the capital and beyond. In particular:

- Infrastructure will be required to alleviate severe overcrowding on London and the South East's rail networks including on Network Rail and London Underground services
- In central London, managing the dispersal of people from London Euston once High Speed 2 (HS2) opens in 2033 requires investment on the scale of Crossrail 2 (CRL2) as well as public realm investment to mitigate pedestrian pressures; similar measures will be required in light of a decision on airport capacity in the South East
- Inevitably, a city with a more diverse, older, population means that inclusion and accessibility will become increasingly important issues

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?

- *How should they be prioritised, taking account of their response to London's strategic transport challenges, including their impact on capacity, reliability, journey times and connectivity to jobs?*
- *What might their potential impact be on employment, productivity and housing supply in London and the southeast?*

In central London, considerable growth will be accommodated within the Central Activities Zone (CAZ) and the City Council is working alongside the LB of Camden, the GLA/TfL, the private sector and development industry through the West End Partnership (WEP) to deliver significant investment in the West End to support and encourage that growth.ⁱ For example, at Tottenham Court Road £1bn of improvements are being delivered through the development of Crossrail 1 (CRL1), the biggest investment in the West End in recent times, which is fully supported both regionally and locally.

Large-scale transport infrastructure investment should be prioritised in a way which allows for alignment with identified development opportunity areas. For example, Paddington, Victoria and Tottenham Court Road are designated as Opportunity Areas (OAs) both within the Westminster City Plan (November 2013) and the Mayor's London Plan (March 2015) and are considered to have significant capacity to accommodate new housing, commercial and other development linked to existing or potential improvements to public transport accessibility. For example, the Victoria Opportunity Area is projected to provide at least 1,000 new homes and 4,000 new jobs from 2011 to 2031; similarly the Tottenham Court Road Opportunity Area is projected to accommodate at least 400 new homes and 5,000 jobs from 2011 to 2031. Victoria is changing from an area previously dominated by Government Departments to an area in which banking, finance and corporate HQ buildings wish to locate, while the Tottenham Court Road area has a more varied economy (including a world renowned creative sector in Soho as well as being a major tourist destination).

However, large scale infrastructure improvements will not, in themselves, maintain London's position as a successful global city. London already has well-established transport infrastructure and the prioritisation of investment should also seek to improve what is already in place. For example, some areas of London have good transport links but low levels of housing and commercial density.

An integrated, balanced approach to transport and development modelling and investment appraisal is needed in order to unlock sustainable development and address the effects of transport infrastructure on investment decisions, growth and productivity. This will need to be sufficiently sophisticated to balance a range of investment needs, including investment in walking and cycling facilities and public transport (such as radial routes in outer London and the proposed extension of the Bakerloo Line); social infrastructure and technological innovation such as greater uptake of electric vehicles in commercial fleets and private use. We strongly support the development of an integrated transport modelling framework, collaboratively with TfL and the London boroughs, to prioritise infrastructure investment for such a complex, historic and dense city. This includes looking across environmental and public health-related, as well as economic and transport-related, policy drivers in order to set out the right collective investments in current infrastructure, potentially including ambitious walking and cycling strategies to keep London moving.

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

The City Council is a longstanding supporter of Crossrail 2 (CRL2). CRL2 presents an opportunity to help alleviate severe overcrowding on London and the South East's rail networks including Network Rail lines and London Underground lines. London's population is projected to reach 10 million by 2030 and supporting and maintaining a functioning, accessible and inclusive transport system for this population is a key priority for us.

However, we are currently seeking assurances that a proper assessment of the distinctive impacts and benefits for CRL2, and how these are mitigated or harnessed, will be undertaken at the various stages of the project, not just at its outset. Growth from CRL2 must recognise the need to improve existing situations as well as provide new opportunities. This should include a proper assessment of local impacts as well as route-wide effects to ensure that funding and delivery mechanisms for necessary mitigation or improvement measures are properly accounted for. Clear borough involvement from the outset in relevant governance mechanisms is critical in this regard.

Managed effectively and collaboratively, CRL2 can maximise its anticipated benefits, providing a vehicle for effective integration and planning of transport systems across London to enable major development and job creation:

- Through effective coordination of the delivery of CRL2, there is a significant opportunity to make better use of our current transport system and help relieve congestion on existing railway lines (including Underground lines) to reduce pressures across London. A key example is CRL2's role in managing the dispersal of people from London Euston once High Speed 2 (HS2) opens in 2033.
- There is potential to draw on the lessons of CRL1 to maximise the integration of public realm/transport interchanges and property development above and around CRL2 stations, including commercial, retail and residential development, delivered in partnership between the private sector, local authorities and other agencies (building, for example, on the new partnership arrangement between Transport for London and Network Rail for CRL2 itself). There are two CRL2 stations proposed within Westminster at Victoria and Tottenham Court Road, identified as having capacity for major housing growth, regeneration and job creation which should be supported by investment in public transport infrastructure. CRL2 is central to the West End Partnership (WEP)'s ambitions to integrate, coordinate and deliver £500m of improvements around Tottenham Court Road, including improvements to the public realm in and around the new CRL2 station entrance to create better pedestrian spaces and new walking routes. Understanding the role of property value uplift and how this can be used to maximise the benefits of investment will be essential.
- CRL2 presents significant opportunities for more employment across London, allowing for improved accessibility to employment as well as contributing to local job creation, including but not limited to construction works. Westminster's objectives in terms of employment include upskilling our resident population and removing barriers to employment for our residents, especially in the north of the city which has high levels of deprivation. Lessons should be drawn from Crossrail Limited's work with local employment brokerages, the Tunnelling and Underground Construction Academy (TUCA) and its role in offering opportunities to unemployed

residents within boroughs along the route. To make this activity more sustainable, viewing employment and skills activity as an integral part of infrastructure investment packages has significant potential to unlock new models of investment and delivery, including the potential for the sharing of risk and reward between London and HM Treasury in order to reinvest savings from reducing unemployment into successful local programmes.

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

- *What is an appropriate local and regional contribution - given the potential distribution of benefits to business, residents, transport users and the wider economy - and how could this be achieved?*
- *What innovative funding mechanisms could be considered to support delivery of key schemes?*

The main barrier to unlocking development opportunities is the availability of funding to implement projects and/or attracting sufficient private sector investment. Social infrastructure, such as housing, education and health facilities, will also be placed under more demand by a growing population – with an increasing number of older people – and will need to be addressed concurrently. In addition, the focus on capital and infrastructure operating costs should not obscure the importance of revenue spending required to manage and maintain public realm including maintaining heritage and cultural assets and facilitating services such as waste disposal, budgets for which are under severe and rising pressure.

Boroughs could significantly enhance the potential benefits of large scale infrastructure investment **if long-term, predictable and real financial incentives are made available**. Individual boroughs, and in particular Westminster, are in the best position to promote inclusive growth that generates direct benefits from London wide transport and infrastructure investment. There is a tremendous opportunity to bring together a number of different levels of public sector delivery of infrastructure by combining national, regional and sub-regional funding investment streams. Transport budgets for London, already partly made up from a proportion of business rates, could be further devolved and be part of a mix of other funding streams such as Tax Increment Finance, a more nuanced ‘growth accelerator’ financing model including broader economic targets such as reducing long term unemployment, a visitor levy or a share of climate change levy revenues. Such models could help create an incentive for growth in those areas that otherwise make no direct gain but incur new budgetary pressures. We would be interested to discuss this further as we believe that with the right financial package, Westminster through the West End Partnership, could unlock significant growth across the West End in coordination with the opening of CRL1 and CRL2.

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?

The Global Financial Centres Index, the Economist Units Liveability Analysis and the European Cities Monitor all provide useful perspectives on these questions. Ernst and Young track this form of competitiveness and there is now strong competition particularly from German cities. Lack of skills and the comparative costs of doing business are among the key challenges for London.

Germany has one of the world's largest and most sophisticated transportation systems. Whilst there is a split between Government funding and Public Private Partnership funding, a national transport infrastructure funding agency (Verkehrsinfrastrukturfinanzierungsgesellschaft) was established in 2003 whose task it is to distribute the income from road tolls among road, rail and waterways and to support projects realised under a public-private funding scheme. Redistribution of cost and demand is something Westminster is particularly interested in and we would be keen for the Commission to explore this model in more detail.

<http://www.internationaltransportforum.org/statistics/investment/Country-responses/Germany.pdf>

We are also interested in exploring the other examples put forward in London Councils' response:

- PwC's Funding and Financing Study explores in depth international models for funding infrastructure, which have been considered for their applicability to London.
- Toronto, Canada, is responding to its city congestion problems with a two-stage investment in its transport system, focusing on bringing economic growth and job creation. It will build, extend and upgrade a series of light rail, underground and bus routes over a 25 year period.
- Paris is establishing a city-regional authority to improve its city transport connectivity with its suburbs. It is building a Grand Paris Express to link the centre of Paris with its airports and major economic areas in the greater Paris region.

Electricity interconnection and storage

1. What changes may need to be made to the electricity market to ensure that supply and demand are balanced, whilst minimising cost to consumers, over the long-term?

•What role can changes to the market framework play to incentivise this outcome: •Is there a need for an independent system operator (SO)? How could the incentives faced by the SO be set to minimise long-run balancing costs?

•Is there a need to further reform the “balancing market” and which market participants are responsible for imbalances?

•To what extent can demand-side management measures and embedded generation be used to increase the flexibility of the electricity system?

Energy infrastructure is a particularly pressing issue for Westminster. Our work with UK Power Networks on their future Business Plan suggests an urgent need for investment of at least £400 million in electricity supply infrastructure in central London, and the Mayor is already aware that existing shortfalls are particularly constraining growth in Victoria and the West End, including causing power outages affecting theatres and other businesses. Given this we have taken a leading role in working with the Mayor to support the case for the provision of infrastructure in advance of development actually taking place, and have written to Ofgem to reinforce the case for the changes to the regulatory regime needed to achieve this.

We strongly endorse the move towards locally produced energy. There is a role for the Mayor in pushing for a regulatory regime more supportive of local decentralised energy provision. We also note that electricity demand driven by the decarbonisation agenda may rise dramatically. Therefore, carbon taxes will continue to be an important tool in ensuring a switch to lower carbon electricity and further investment into researching energy storage. Continued investment is also required in carbon storage capacity and technology, perhaps combined with subsidy for small scale electricity generation.

Over the past year, the Greater London Authority has worked with the Number 10 Policy Unit, HM Treasury, the Department of Energy and Climate Change, UK Power Networks and the Core Cities to develop new arrangements for the required investment ahead of demand. Two potential models emerged (see below) and we recommend that the Commission continues to develop these ideas as part of its review into these strategic challenges:

- One approach would be to allow distribution network operators to seek Ofgem’s approval for increased investment in a specific area, but on the basis that the cost of the accelerated investment would be recovered from connecting customers as they emerge.
- The second option, which the GLA developed in conjunction with the Infrastructure UK team at HM Treasury, is based upon a private development company being established, potentially by a local or strategic authority in respect of any area, to fund up front investment. This would be done on the

basis that the company recovers costs as connections are made by developers, with an additional premium to attract the required investment.

The London Electricity Infrastructure Review, a Technical Working Group Report by Ramboll, also makes several points which we suggest that the Commission also look at in detail:

- The essential change is for investment in London's electricity infrastructure to become more proactive. Infrastructure providers should have greater engagement in development strategies in order to fulfil a role that actively facilitates growth and anticipates demand rather than inhibiting by being reactive.
- The current application of the price control framework discourages proactive investment. A change in emphasis could facilitate such investment.
- The primary constraint in central London, physical space, will require co-operation by many public and private sector bodies in order to find a solution.
- Arguably, the initial phases of a strategic solution are partially underway with the reinforcement work being undertaken by National Grid in north London. This will pave the way for new bulk supply routes to new substations serving consumer voltages, as identified in UKPN's business planning for the next 10 years, but insufficient timely investment in the development of London's distribution network presents serious risks to London's economic growth, regardless of this current reinforcement work.

2. What are the barriers to the deployment of energy storage capacity?

•Are there specific market failures/barriers that prevent investment in energy storage that are not faced by other 'balancing' technologies? How might these be overcome?

•What is the most appropriate scale for future energy storage technologies in the UK? (i.e. transmission network scale, the distributed network or the domestic scale.)

Gas prices are a major determining factor in the cost of energy. Energy storage capacity, particularly in the form of alternative and "reserve" sources of energy, are exposed to the volatility of gas prices. Because of this dominance, the future scale of energy storage capacity will need to be large – however, a strategy that includes all three scales (transition, distribution and domestic) would balance the risk of a lack of technological progress in one area.

There is also a need for legislative change to require utilities to cooperate with boroughs' (and the Mayor's) strategic planning and to enable London level scrutiny and approval of utility franchises to meet these objectives. We welcome the steps the utilities have taken to work with the City Council and to recruit 90 local staff. In a recent response to Ofcom on broadband provision we called for a 'duty to cooperate' between utility companies and local authorities and believe this would be particularly beneficial in regards to energy provision.

Our work with partners in this area makes clear the need for all London stakeholders to accelerate thinking about the future direction of energy provision and infrastructure over the medium-to long-

term, moving towards a “smart grid” to enable the most effective use to be made of existing (and help manage the need for new) infrastructure while providing choice and better value for consumers.

3. What level of electricity interconnection is likely to be in the best interests of consumers?

•Is there a case for building interconnection out to a greater capacity or more rapidly than the current ‘cap and floor’ regime would allow beyond 2020? If so, why do you think the current arrangements are not sufficient to incentivise this investment?

•Are there specific market failures/barriers that prevent investment in electricity interconnection that are not faced by other ‘balancing’ technologies? How might these be overcome?

One important market failure which we would highlight is a lack of clarity around return on investment. Investors are not clear on the longer term public sector appetite, or the market potential, for new technology. As part of its work the Commission could usefully consider how this could be addressed.
