



# Investing in the Future

Sponsored by The Peel Group

Metro — Dynamics

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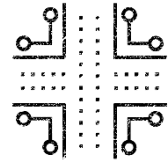
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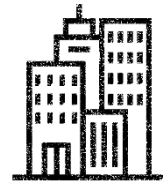


# Executive Summary

**The UK suffers from historic and sustained underinvestment in infrastructure.** This has adversely affected our national economic performance and resulted in major consequences for regional economic growth. The success of London and the South East has been positive and self-reinforcing, where today the scale of spatial imbalance in the UK is more extreme than countries with comparable levels of economic output. This pattern of growth is imprinted in the UK's economic geography and shows no sign of slowing down or reversing.



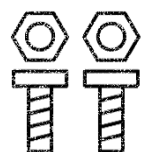
**The body of evidence clearly suggests that infrastructure is necessary for growth.** It would not be right to assert that any infrastructure investment in any location will automatically reinvent an area's prospects for economic growth, but it is evident that well-planned infrastructure which is brought forward as part of a strategic vision for a place can create significant economic benefits and influence private sector investment. In some cases, infrastructure has had a transformational effect on the economies of places.



**There are many examples of the public and private sector working in tandem to plan and execute successful infrastructure investment.** In the North, investments in Ocean Gateway – including the Manchester Ship Canal, and at MediaCityUK – demonstrate that the private sector can lead catalytic change when supported by enabling investment from Government. Where strategic economic policies and broader conceptions of economic impact have acted as a guide to decision-making, infrastructure investment can have a significant impact on local areas right across the country.



**The current investment climate is both changing and challenging.** Brexit means that the UK is likely to relinquish its stake in the European Investment Bank, thus diminishing EU funding and transferring the onus of spending decisions to the UK Government. The extent to which cities are internationally competitive for exports, talent and investment will determine the strength of post-Brexit Britain. This makes it even more pressing that a different approach is adopted. The reallocation of EU Structural Funds, to be repackaged into the UK Shared Prosperity Fund, presents an opportunity for Government to actively pursue economic rebalancing.



**The key question is how to ensure future investment decisions reverse the longstanding trend of underinvestment. In our view, there are two principal challenges:**

- Entrenching strategic and ambitious thinking in infrastructure planning at a national and regional level.
- Ensuring that appraisal methodologies are fit-for-purpose and support economic rebalancing.

**This requires the Government to take a strategic perspective on infrastructure and break the pattern of using public spending to merely ‘correct market failure’ in a narrow, technical (Green Book) sense which precludes longer-term and ambitious investment.** Instead the Government must move towards exploiting opportunities where returns to investment could be much greater in a broader sense. This may open up investment in a broader range of locations than are usually considered, though it should be stressed that this should not lead to investing in schemes where the market cannot be made to work.

Indeed, the Government itself has recognised this, and through its Industrial Strategy has made some important, if tentative, steps towards stronger support for economic rebalancing. However, this must go further.

**The National Infrastructure Commission (NIC), the new mayoral combined authorities, and the regional powerhouses are essential in this process.** These organisations can work together and engage with the private sector to promote a more long-term and strategic approach to infrastructure investment – they must be supported in this aim by Government. These organisations are well placed to pursue the more ambitious agenda of spatial rebalancing that the Government has committed to in its Industrial Strategy.

**The decision-making systems for infrastructure have long prioritised spending in the Greater South East, which has led to underinvestment in other regions.** The Green Book – the centrepiece of current appraisal methodology – encourages this through:

- Not having an explicit appraisal methodology that supports economic rebalancing.
- Not allowing for long-term dynamic effects of investment (i.e. that infrastructure can, in the right circumstances, stimulate economic growth).
- Promoting a shift to a methodology based on land value uplift, which reinforces the bias towards investment in the Greater South East (where values are highest).

**Recent work by sub-national transport bodies like Transport for the North and Midlands Connect, demonstrate innovative approaches to the appraisal process that look at investment appraisal within the wider context of economic growth,**

**development and growth trajectories.** It is important that such approaches go hand in hand with the technical appraisal methodology so that decision-making is underpinned by due rigour but can also highlight the opportunities that exist outside of London and the South East.

**Accordingly, Metro Dynamics make the following recommendations:**

- Government should explicitly promote the Shared Prosperity Fund for regional economic rebalancing and recognise the centrality of infrastructure within this as critical for the long-term competitiveness of a modern economy.
- The NIC was established to provide the Government with sound, independent technical advice on the UK's infrastructure needs. The NIC is in an important position to reinforce the positive messages about infrastructure and economic growth in its communication with Government and stakeholders. At the same time, the NIC's mandate should:
  - Clearly enshrine the principle that infrastructure is a significant factor in driving economic growth.
  - Be extended from supporting “sustainable economic growth across all regions of the UK”<sup>1</sup> to a broader mandate of rebalancing the economy and to champion infrastructure investment in all parts of the country in its assessments, recommendations and studies.
  - Focus on other important infrastructure corridors, particularly in the Midlands and North, to complement the existing focus on the Oxford-Cambridge corridor.
  - Ensure that the National Infrastructure Commission continues to champion and encourage the opportunities in the National Infrastructure Assessment.
  - Ensure that private investors and developers are regularly engaged.
- Combined Authorities and other sub-regional local government bodies like the Northern Powerhouse, Midlands Engine and their sub-national transport bodies are fulfilling a vital role in providing an evidence base, making decisions, and planning long-term for their regions. This should be recognised by Government, and the NIC should work more proactively with regional and city leaders to understand their priorities and ensure that local and regional objectives in the North and Midlands are reflected in national priorities.
- Further, reflecting the role of the London Plan in driving investment in the capital, the Government should encourage Mayoral Combined Authorities to have similarly strong statutory planning policies that promote, rather than constrain economic growth.
- Combined authorities should work to proactively engage key private sector players in their area at a strategic level to deliver shared ambitions for transformational change.

- Either through the Rebalancing Toolkit – or as part of a broader review of the Green Book carried out in partnership with Mayoral Combined Authorities and the NIC – the Government must ensure that **cost benefit analysis / appraisal techniques**:
  - Clearly set out the relative importance of rebalancing as a factor for investment decisions so that these issues are properly considered, and so that investment does not simply continue to accrue to more economically successful parts of the country.
  - Do not rely on measures of economic success that penalise less economically successful places. Specifically, the use of land value uplift as a measure runs counter to the principle of rebalancing and should be replaced with a focus on employment and measures of inclusive growth (recognising the social value of reducing unemployment in parts of the country that are less economically successful).
  - Recognise the relative cost-effectiveness of developing infrastructure in less economically successful parts of the country.
  - Recognise the dynamic effects of infrastructure investment on the UK economy, so that these effects can be measured in a consistent way and subject to critical analysis along with other effects.
  - Apply these principles to all forms of infrastructure in the same way, not just transport schemes.
- Enshrine all of the above as a core, non-discretionary part of the Green Book process.



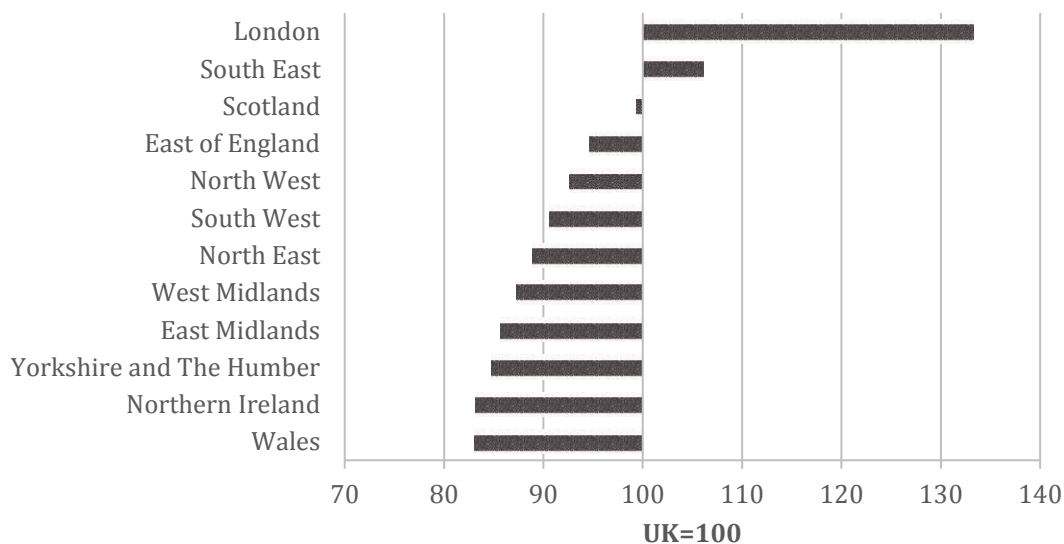


# Chapter 1

## The rebalancing imperative

- 1.1 **Economic growth is different in different places. Whilst not all regions function or perform identically, the degree of imbalance in the distribution of growth that is observed across the UK today is highly troubling.** It represents a failure of potential and has enormous consequences for our national productivity. That this imbalance is not a recent phenomenon, but rather a persistent feature of our economy, is even more concerning.
- 1.2 The concept of rebalancing has been used to refer to a set of economic issues. It has been used primarily to focus on the contribution of different sectors and regions to the UK economy, but also to characterise trends in the economy such as savings vs. spending and the tendency to import rather than export. The former issue is the focus of this report.
- 1.3 Disparities in economic performance between different parts of the UK are significant and persistent. Since 1997, London's GVA per capita has moved from 59% above the UK average to 72% above<sup>2</sup>. In fact, this very recent movement is a continuation of a process of bifurcation of the UK economy, which goes back over a century, and which ninety years of regional policy has struggled to tackle<sup>3</sup>. Since the 1970s, the degree of imbalance in the UK accelerated, a movement largely characterised by a trend of de-industrialisation and population decline in cities whose industries were losing competitiveness, and, at the same time, a London economy that was able to pursue a new phase of growth supported by a young financial sector.
- 1.4 The success of London and the South East has been positive and self-reinforcing and today the scale of spatial imbalance observed in the UK is more extreme than other countries with a similar overall economic output, including the United States, Germany, France, Spain and Italy<sup>4</sup>. This trend shows no sign of slowing down or reversing, with the increase in disparities growing faster here than is observed elsewhere<sup>5</sup>.
- 1.5 Not only is the overall value of goods and services lower in some regions, the efficiency by which they are produced is also lower.

**Figure 1. Labour productivity (GVA per hour worked) 2016**





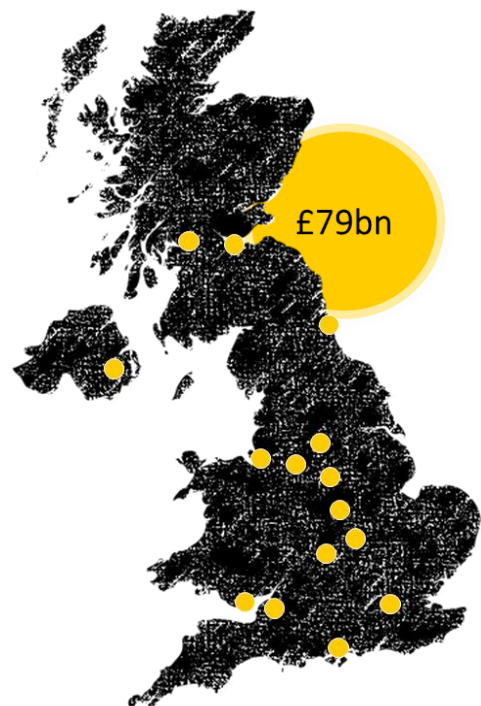
- 1.6 **This matters because increasing productivity is a critical component to increasing economic growth in the long-run.** It also allows for growth in real wages. In 2014, 17 cities out of 62 had levels of productivity above the British average<sup>6</sup>, this subsequently fell to 15 a year later<sup>7</sup> and to 10 in 2016<sup>8</sup>. Productivity is not an abstract economic concept, it is felt in places and has real consequences. As figure 1 illustrates, the gulf between London and the South East and the regional economies is striking. There is a fundamental disconnect between the performance of London and other regions, showing they are essentially uncoupled from London's success.
- 1.7 Many have commented on the centralisation of power structures that drive and manage economic growth and development. London is not the centre of the UK, but it acts as the powerhouse for national economic, financial and political life and its institutions have exerted an unparalleled influence over the formulation of policy<sup>9</sup>.
- 1.8 In many ways, London is the UK's most successful city. Yet at some point in the economic growth trajectory of a successful place, costs begin to outweigh the benefits and the physical and virtual infrastructure which support the economy begin to struggle. Recently, the capital has been exhibiting signs of diseconomies of scale, or "overheating", which damages growth prospects for London and the South East. These congestion costs are evident in a number of markets. London's house price to earnings ratio has reached 14.5. The average house price in London reached £496,000 in October 2017, dwarfing average earnings of £34,200<sup>10</sup>. Not only does this erode the living standards of people living in the capital, a recent report by CBI illustrated that:
- 66% firms cited housing costs as hindering recruitment of entry-level staff
  - 44% companies offered more money because of housing costs (London loading)
  - 28% companies reported staff leaving because of high housing or commuting costs
  - 16% firms paid employees travel expenses to commute
- 1.9 The high cost of London housing is constraining the ability of businesses to operate effectively<sup>11</sup>. Additionally, analysis of traffic showed that of a study of 123 cities across Europe, London had the highest number of traffic hotspots, and that time wasted in gridlock at these locations could cost drivers in the capital £42 billion by 2025<sup>12</sup>. As well as increased journey times, congestion increases pollution levels which makes residential and commercial development less attractive.
- 1.10 There are marked differences in population growth experienced in London and the South East compared to Northern regions. For this reason and others discussed in this report, the capital and its hinterland has become locked into a vicious cycle of population growth, congestion and piecemeal infrastructure interventions to relieve that congestion. Nowhere is the absence of strategic and spatial planning in the UK more obvious than here. And given that the UK's planning system hinges on demographic projections that capture such differences and assume that they persist. This influences housing supply and assessments of future infrastructure supply and demand<sup>13</sup>. For this reason, it is essential that there is a rethink in the way the case for investment in infrastructure is constructed.

**Figure 2. Proportionate change in Population by Region (2005-2015)**



1.11 Economic growth is not a zero-sum game. London does not need to be made worse off in order to invest in lower performing places, but rather the potential that exists in these places must be recognised, as must the significance of bringing underperforming cities and towns up to the national average, both for the prospects of growth in them, and for the sustainability of growth in the South East.

1.12 Estimates of the economic uplift are not insignificant. The 2014 City Growth Commission estimated that if the UK's top 15 metros grow at the UK average, they would generate an additional £79bn growth to 2030<sup>14</sup>. Another estimate shows that if all cities were as productive as those in the Greater South East, the economy would be £203bn larger. This is on a similar magnitude as the economic impact of four cities the size of Birmingham<sup>15</sup>.



1.13 **Seeking to influence the geographic dimension of growth is no small endeavour.** It has risen and fallen as a national political concern several times in the last century<sup>16</sup>. Since the 1920s successive UK Governments have pursued regional and urban policies aimed at reducing spatial disparities in economic prosperity and performance across the Country.

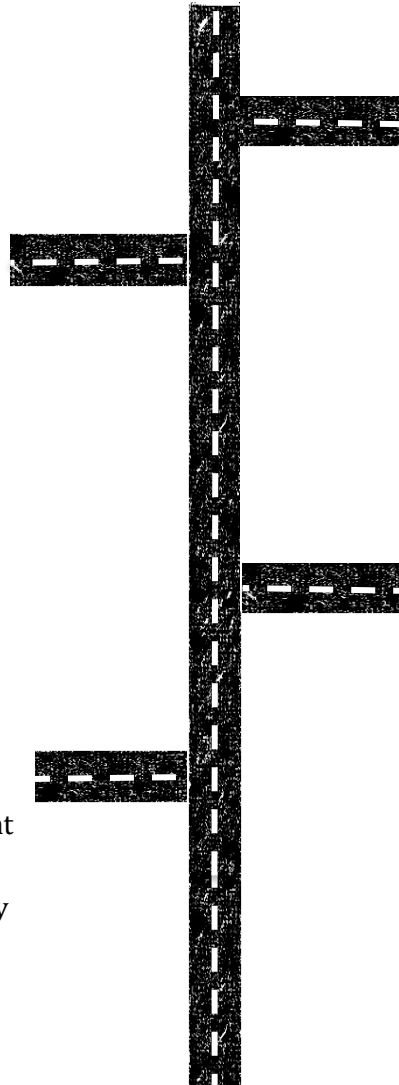
1.14 Over the last century, Government policy towards regional investment has vacillated between a traditional economic view which has tended to see expenditure on struggling areas of the country as inefficient, and more proactive efforts to encourage a better balance of economic activity between different parts of the country.

**Regional policy under Margaret Thatcher**

This period marked a reduction and scaling back of the regional tier of Government, resulting in more spatially fragmented and discretionary regional policy.

**Economic localism**

The Coalition Government of 2010 abolished RDAs and began a discretionary process of devolution via LEPs, Enterprise Zones, city deals and pan-regional cooperation.



**Post-war period**

The centralising post-war tendencies led to a commitment to town and country planning through the 1945 Distribution of Industry Act to divert economic activity to depressed areas of the country. This continued until the 1970s when deindustrialisation intensified disparities.

**‘Third-generation’ regional policy model**

From 1997 onwards, spending was increased to £2 billion a year channelling growth into all regions of the UK, not just the less prosperous areas, as a means of fostering growth.

1.15 It has been argued that these and other policies have made limited inroads into the issue. That the funding committed to these measures has not been sufficient to achieve the desired results. That funding committed has been dwarfed by other forms of Government expenditure that geographically tended to favour the economically dynamic south of Britain. And that the activities of Government never adequately targeted the fundamental and systemic features that lie within the political and institutional landscape of the country<sup>17</sup>.

1.16 **Today, it is once again a national priority through the Government’s Industrial Strategy published in November 2017.**

1.17 The Industrial Strategy acknowledges that “too many of the UK’s cities outside the capital underperform against the national average. We cannot tackle our problems unless we



openly acknowledge them and accept we all share the responsibility for addressing them. Our analysis ... point(s) to some important weaknesses in the UK economy that we are determined, unflinchingly, to correct". It also states that "through our Industrial Strategy, the country's economic geography will be transformed by a surge of infrastructure investment heralding a new technological era."<sup>18</sup> The Industrial Strategy is a relatively new policy shift, but there are broad structural changes facing the UK.

- 1.18 Brexit introduces a new dynamic. The extent to which cities are internationally competitive for exports, talent and investment will become even more important. A recent study of labour productivity in regions of the UK, Italy, France, Spain and the Netherlands showed that of the UK's twelve regions, eight are amongst those with the lowest productivity levels – they make up eight of the fourteen lowest ranked regions<sup>19</sup>. The fact that UK regions perform poorly in comparison to European regions will become even more untenable. The strength of a post-Brexit Britain will rely heavily on multiple centres of growth, each contributing more. A wider reading of the vote to leave in cities, towns and communities outside London and the South East<sup>20</sup> indicates the depth of people's discontent with the economic system. Investment in the fundamental infrastructure that affects people's lives is a real part of raising aspirations and living standards.
- 1.19 Rebalancing the economy is not going to happen by chance. It will require concerted effort and follow-through into policy content across multiple departments such as housing, transport and digital. This needs elevating as a Government priority and to be explicitly addressed in the formulation of policy. Equally, it needs to be afforded sufficient resources so as not to remain solely a focus in the narrative.
- 1.20 That's why the new Industrial Strategy, as one such example of policy, must devote significant resources to investment in infrastructure. Reflecting on past attempts at Industrial Strategy which resulted in "picking winners" and affording preferential treatment to certain industries, this latest iteration emphasises market-wide issues and the economic environment – the horizontals or enablers of growth. Here, infrastructure features as one of the five pillars of the Industrial Strategy; therefore, Government must translate this commitment into action and recognise the central role that infrastructure plays as an enabler of growth and as a primary vehicle for rebalancing the economy. Without this, the productivity of the country and its regions will continue to be undermined.
- 1.21 The following section analyses the challenges that the UK faces in terms of making a significant contribution to infrastructure investment and the mechanisms by which infrastructure has a significant impact on economic growth.



# Chapter 2

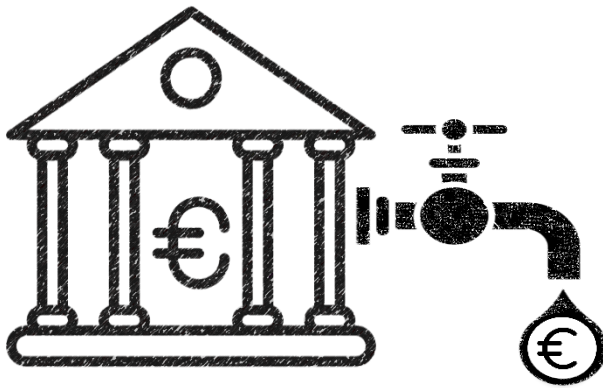
## The UK's Infrastructure Challenge



2.1 In 2017, Metro Dynamics produced a response to the NIC's Call for Evidence for its report entitled: 'Economic Growth and Demand for Infrastructure Services'<sup>21</sup>. Our report summarised the available evidence on the link between infrastructure projects and economic growth. From this, the following points can be made:

- The UK has systematically underinvested in infrastructure for decades and now has a sizeable infrastructure deficit which impacts national economic competitiveness. Since the 1980s, public investment in infrastructure has been lower than in the United States, France, Canada and Switzerland.<sup>22</sup>
- **The practical implications of this historic lack of investment are felt in the UK's economic performance.** The World Economic Forum produces an annual report on global competitiveness. Competitiveness is defined as "the set of institutions, policies, and factors that determine the level of productivity in an economy",<sup>23</sup> and is ranked using the Global Competitiveness Index, in which infrastructure is considered within a basic requirements index. Survey data asking users about the quality of infrastructure overall put the UK 24th in the world.
- **Spending patterns on infrastructure are skewed towards the South and the South East of the UK, resulting in impacts that are felt most keenly in economically struggling parts of the country.** Despite the recent development of the Northern Powerhouse and Midlands Engine, the UK's infrastructure spending remains heavily skewed towards London. If the North had received the same amount per head public spending on transport as London for the last ten years, it would have had an investment of £63 billion more. An average of £6 billion more each year since 2007/08<sup>24</sup>. In part, this simply reflects the high costs of developing infrastructure in the capital. However, this strengthens the argument for greater investment in the North and Midlands, on the basis that investment in those regions would be significantly more cost effective.
- **These spending patterns have been heavily determined by the way in which investment in infrastructure has been prioritised,** which has tended to work in favour of those places that are already economically successful and most likely to provide a safe return on investment. This plays out in the economic performance of our cities: whilst London performs well against 30 world cities, other major UK cities fare significantly worse.<sup>25</sup>
- **The advent of Brexit puts more onus on the need to develop an investment climate** that is conducive to encouraging new infrastructure to support the type of economy Britain needs to thrive. In particular, there is a challenge posed by the likely reduction in European Investment Bank (EIB) funding. The EIB has been an important lender to the UK, so whilst this could release funds for infrastructure following Brexit, it will be important to ensure that such funding is made available and spent in an effective manner. Additionally, the reallocation of European Structural Funds to the UK places the emphasis on Government to outline how it will deliver the UK Shared Prosperity Fund.





€165bn invested by  
European Investment  
Bank in UK projects  
since 1973

- With diminished investment from Europe and a challenging climate for economic growth ahead, it is essential that national, regional and local Government embrace the importance of infrastructure as a driver of growth, and as a way of transforming places where there is latent potential.
- There is a consensus that well-planned infrastructure which is brought forward as part of a strategic vision for a place can create significant economic benefits and influence private sector investment and location decisions. The OECD has found that between 1970 and 2005, investment in UK roads, rail and electricity generating capacity had a stronger positive effect on the level of GDP per capita, and on short-term growth, than other types of capital investment.<sup>26</sup>

## 2.2 A review study by the World Bank<sup>27</sup> has found that:

- Infrastructure contributes to economic growth, both through supply and demand channels by reducing costs of production, contributing to the diversification of the economy and providing access to the application of modern technology, and raising the economic returns to labour (by reducing workers' time in non-productive activities or improving health).
- Infrastructure contributes to raising the quality of life by creating amenities, providing consumption goods (transport, housing, and communication services) and contributing to macroeconomic stability.
- At the same time, infrastructure does not create economic potential; rather it only develops it where appropriate conditions (i.e. other inputs such as labour and private capital) exist.
- Indeed, the Benefit-Cost Ratio for well-chosen, well-executed infrastructure investments can reach 20:128.
- More importantly, however, is the historic experience that infrastructure has a pivotal role in transforming the nature of places – helping to create thriving cities and

economic areas. Infrastructure is essential to the development of dense, high-performing places with a high quality of life.

## Towards well planned infrastructure investment

- 2.3 Since Metro Dynamics' 2017 report: A Technical Response to National Infrastructure Commission Call for Evidence, the Government has published its Industrial Strategy. The Industrial Strategy makes economic rebalancing a central objective of the policy.
- 2.4 However, this report contends that without fundamental changes to the way in which infrastructure is planned for – cohesively, ambitiously, and with a long-term vision – and appraisal, the challenges noted above will remain, and the UK will fail both to rebalance the economy and properly address the economic challenges posed by Brexit.
- 2.5 Public sector investment can have a catalytic and transformative impact. Infrastructure investment and projects should be planned and delivered in a way that maximises impact on local economies and communities and supports economic rebalancing. Public and private sector collaboration provides even greater impact and accelerated delivery of benefits, e.g. MediaCityUK and Canary Wharf, and it is done best where there is strong local support from council leadership and other partners.
- 2.6 In light of this, the private sector has had an important part to play in the provision of infrastructure – not to replace Government expenditure, but to complement it where Government is able to play an enabling role.
- 2.7 Historically, private investment has achieved much in areas of the country where Government activity was either absent or insufficient. Much of our infrastructure owes its genesis to the vision and innovative risk-taking of private capital and funding. With little support from Government and in the risky environment of urban renewal, private companies have become central in the story of UK regeneration by proactively prioritising investment in infrastructure that has catalysed a wider regional response, particularly in areas that were heading for dereliction.
- 2.8 Early investment in infrastructure is critical to initiating growth and long-lasting success in places across the country. The following chapter explores how existing arrangements can be shifted to better address the infrastructure challenge.





# Chapter 3

Addressing the  
infrastructure challenge



- 3.1 The preceding sections have made the case that the UK faces an infrastructure challenge, and that addressing this challenge can support the economic rebalancing so critically needed across the UK.
- 3.2 Addressing the infrastructure challenge becomes even more pressing in light of Brexit and potentially diminishing funding sources – notably the UK’s stake in the European Investment Bank. Successive Governments have been clear about their ambitions to rebalance the economy.
- 3.3 **The key question going forward is how to ensure that future investment decisions reverse the recent trend and more proactively contribute to increasing overall levels of infrastructure investment while ensuring investment opportunities are available in all regions of the UK.**
- 3.4 In order for this to move from rhetoric to reality, two major changes are needed to the way the UK currently identifies, prioritises and invests in infrastructure projects:
- Improved strategic planning on a national and regional basis which is fundamentally underpinned by the notion that infrastructure can be a catalyst for economic growth.
  - Assessing projects using an appraisal system which values economic rebalancing and supports transformational projects where the argument for investment is harder to evidence using current demand or trend-based data.
- 3.5 The following sections suggest ways in which these two changes can be realised across the UK.

## A more strategic approach to planning investment in infrastructure

### 1. Building on the potential of the NIC

- 3.6 The NIC, established in October 2015, is a welcome addition to infrastructure planning. It comes at a time when the UK lacks an overarching vision for directing how different types of infrastructure investment will contribute to national objectives, such as rebalancing the economy or boosting productivity. Current strategies are either sector specific, such as the Department for Transport’s (DfT) Transport Investment Plan, or marshalled into plans and pipelines by the Infrastructure and Projects Authority.
- 3.7 The NIC’s establishment was motivated by a growing consensus amongst politicians and commentators that long-term decision-making on infrastructure projects was being compromised by a lack of consensus among politicians and hindered by a five-year ‘political horizon’<sup>29</sup>. The Chancellor Philip Hammond described the NIC’s role as helping make sure “that it is long-term economics, not short-term politics, that drives Britain’s vital infrastructure investment”<sup>30</sup>.

- 3.8 **Therefore, the role that the NIC plays is a vital one in providing a clear, evidence-based assessment of the UK's infrastructure needs.** The evidential and impartial nature of the Commission helps to establish cross-party consensus, even on difficult policy decisions where politicians may be prone to prevarication and delay. In addition, the NIA takes a long-term view of infrastructure requirements by looking to 2050 and can hold Government to account by monitoring progress of projects and programmes recommended by the NIC.
- 3.9 In January 2017, the NIC was established as an Executive Agency of HM Treasury. Although the Government decided not to enshrine the NIC in statute, the NIC has its budget freedom and autonomy set out in a charter. What is important is the institution's ability to maintain the latitude and space required to employ the research methodology it chooses and to propose bold schemes based on the evidence it sees from across the country and abroad.
- 3.10 Rebalancing and transformational investment needs to be embedded in thinking to ensure sufficient focus on the Commission's objective "to support sustainable economic growth across all regions of the UK", and not be driven by historic trends.
- 3.11 **The National Infrastructure Commission is in a unique position to reiterate the importance of infrastructure in driving economic growth.** This should flow into its recommendations and support for schemes across the country. A recent report produced by the Commission, entitled 'Economic Growth and Demand for Infrastructure Services' is very tentative on the benefits of infrastructure investment for places. It posits that infrastructure is necessary for growth but not sufficient, which is correct in so far as economic growth is difficult to plan for and encourage, but it is important that the NIC emphasise the necessity of infrastructure, rather than its insufficiency in relation to our economic objectives.
- 3.12 The NIC's Post-Election Statement highlighted 12 priorities for Parliament and was much more strongly in favour of infrastructure. It made clear that "when planned well, infrastructure can make a real and lasting positive impact on communities, on local economies and on the country at large" adding that "infrastructure projects will only happen if the Government pushes them forward relentlessly...too often the process of agreeing and delivering projects is characterised by delay, backtracking and instability. This cannot continue, particularly in view of the inevitable uncertainty afflicting international investors during the Brexit negotiations"<sup>31</sup>.
- 3.13 However, it is striking that the majority of the place-specific recommendations that follow are focused on London and the South-East. This is disappointing given that it tends to be in places other than London and South East that Government must push forward relentlessly. The NIC's role must be one of market-maker and thought leader, to provide expertise, advice and support to investment in areas that have historically been underrepresented.
- 3.14 Criteria for schemes must not exclude regions, rather they should positively support regions to uphold the objective of supporting all areas of the country. The NIC is a key player in this process, promoting a more long-term and strategic approach to infrastructure investment. The Commission can rightly play an expanded role in working

with City Leaders to pursue the more ambitious agenda of spatial rebalancing that the Government has committed to.

- 3.15 It is also right that the NIC recognised that the scale, type and distribution of population and household growth will influence the future demand for infrastructure and that this is simultaneously intertwined with the planning system. Moving beyond this, a place's ambition for a step change in economic prospects is essential context in understanding how the future distribution of population and employment growth will generate demand for infrastructure in the future. The NIC needs to take into consideration the transformative potential of the Northern Powerhouse and other places, in assessing future patterns of infrastructure demand<sup>32</sup>.

## **2. Combined Authorities and regional leadership should be supported**

- 3.16 Sub-national Transport Bodies like Transport for the North (TfN) and Midlands Connect have been working to improve understanding of infrastructure and growth in the appraisal process. They introduce strategic visions for the regions in which they operate, looking at the region as a whole, taking into account significant clusters of activity and corridors in a more spatially and economically coherent way than can be achieved on a project-by-project basis.
- 3.17 Midlands Connect is on track to join TfN as the country's second Statutory Sub-national Transport Body in 2019. The organisation has identified how transport connectivity supports economic growth in different sectors and locations across the Midlands. It is comprehensive and long-term.
- 3.18 Meanwhile, TfN recognises the role that regional economic growth will rely on increasing the productivity of its people and businesses and that "transport investment can act as a key enabler to support the growth of the economy of the North". TfN has also made the case that the economic geography of the North is different from the rest of the UK – with a polycentric system of economic centres, rather than dependence on fewer, larger centres<sup>33</sup>.
- 3.19 The draft Strategic Transport Plan for the North produced for consultation in January 2018 proposed a new approach to project appraisal and analysis which favours the plan's strategic role in promoting and accelerating growth. It builds on the findings of the Northern Powerhouse Independent Economic Review which identified the prime capabilities where the North is highly competitive. The Plan proposes a framework with new tools to better quantify the benefits of transport interventions, aiming to<sup>34</sup>:
- Strengthen core analysis by improving the robustness of assessments and business cases and improving confidence and the accuracy of costing data.
  - Expand the range of analysis, including how TfN can enhance current practices to incorporate the full range of economic impacts in business cases.
  - Enable assessment of innovative future developments that take into account technology take-up (such as autonomous vehicles), policy changes, and collaboration (such as Mobility as a Service).

- 3.20 This analytical framework is consistent with the Green Book and DfT's WebTAG for programme and scheme development while ensuring that the appraisal 'properly reflects the key factors impacting on economic growth in the North and continues to influence Government and others to work in the same way'<sup>35</sup>.
- 3.21 The TfN approach looks at developing the evidence base across economic growth corridors. It analyses the current performance of the road and rail network and identifies where there is increased economic growth and associated travel demand. This analysis highlights where connectivity improvements are needed to enable transformational economic growth. The analysis extends to seven corridors that represent where the largest gaps between demand and performance currently exist and where there is likely to be the greatest economic potential for agglomeration<sup>36</sup>.
- 3.22 In a similar vein, the Northern Powerhouse Independent Economic Review (NPIER) argues that delivering transformational economic growth required to meet the Government's ambitions for the North will require a step change from historic trends. Government intervention in the land market also has a significant influence on the volume and distribution of housebuilding. As Turley's 'Technical Response to National Infrastructure Commission Call for Evidence' notes, "housebuilding in itself is affected by the regulation of land supply and planning permissions, which are a feature of the planned system that is yet to be universally embraced".
- 3.23 **Taking into account the wider context of economic growth, development and growth trajectories provides a clearer picture of how infrastructure links to the wider story of economic growth and the impact it will have in opening further opportunities for growth.** It is important that approaches go hand in hand with the technical appraisal methodology so that decision-making is underpinned by due rigour but approaches that highlight the possible should also be endorsed, so that there is a move towards exploiting the opportunities for transformational growth that exist outside of London and the South East.

### 3. Partnership working between combined authorities and the private sector

- 3.24 Combined authorities, landowners and investors have clear long-term views about transformational projects in their places. An open dialogue between parties should lead to investment which maximises the area's strategic and economic contribution to growth. The examples in the appendix highlight the upside potential of such collaboration. The private sector can champion catalytic change for an area when it works within a coordinated programme of activity. Framed by the Industrial Strategy and in the context of Brexit, it is essential that efforts are focused on driving productivity and economic capacity.
- 3.25 In the way that the Greater London Authority (GLA) has charge of the London Plan, several Combined Authorities across the country are taking on similarly strong statutory planning powers. This empowers local leaders to take a long-term strategic view of the potential of their places, considering the requirements for transport, utilities, housing, employment land and digital connectivity. These local economic strategies need to be ambitious, support



economic growth and not protect local political interests. Local spatial plans must follow economic strategies and be pro-growth for both employment land and housing, driven by a positive view of need rather than constraining growth.

- 3.26 Alongside this, it is important that Combined Authorities and landowners engage with one another and maintain an open dialogue to facilitate co-operation and collaboration on key sites. This should function as a bridge towards building long-term consensus on complex political and economic questions around infrastructure investment, helping to establish a collaborative approach to investment. It should also improve the decision-making and choice around which projects are pursued.
- 3.27 As section 2 highlighted, not all infrastructure projects are equally effective and efficient at delivering economic benefits. The public sector does not always identify the best investments and the private sector will be guided by risk and return signals from the market. It should be possible for engagement to secure a middle ground between these positions, one which identifies sites and infrastructure investment opportunities which fit the greater scheme of growth and development in a place.

## Improved appraisal methodology

- 3.28 Limited public-sector finance and pressure on decision-makers to find good value for money investments will always necessitate prioritisation of projects. It is essential that the ambition to rebalance the economy runs through these appraisal techniques and is recognised as a valid criterion for assessment and prioritisation. This section looks at how the Green Book – the Government’s framework of guidance for public investment - and the newly introduced Rebalancing Toolkit currently work, and how they could be adjusted so that they play a more pivotal role in rebalancing the economy especially with the introduction of the Shared Prosperity Fund.

## 1. Green Book

- 4.1 The Green Book has seen numerous revisions to the guidance and supplementary advice issued, yet there are still pressing challenges concerning the methodology. This section will touch on three challenges:

Issue one	Issue two	Issue three
The inability of the Green Book to support investment in the right types of infrastructure and in the right places – resulting in a pattern of investment that has been skewed towards already successful areas such as the South and South-East.	The inability of the Green Book to take a holistic view of the impact of potential investment underplays the wider benefits of infrastructure investment, resulting in underinvestment in infrastructure and restricting much needed investment in marginal areas.	Recent updates to the Green Book do not change the underlying incentives and pattern of prioritisation granted to infrastructure investment.

- 4.2 The Green Book is the Treasury’s guidance for Central Government, setting a framework for appraisal and evaluation of all policies, programmes and projects. It plays a unique role in influencing the behaviour and direction of investment made by Government departments and other public bodies. Manifestations of this include:

- WebTAG, DfT’s appraisal guidance for transport schemes is based on Green Book principles.
- Local Enterprise Partnerships (LEPs) and Combined Authorities across the country are required to produce Assurance Frameworks which are based on the guidelines and principles set out in the Green Book.
- The Ministry for Housing, Communities and Local Government (MHCLG) follows Green Book guidance on land value uplift as a measure of the impact of development. This affects where public funding is considered to provide the greatest value for money in delivering housing.

- 4.3 The Green Book provides an appraisal methodology for assessing the costs, benefits and risks of alternative uses of money to achieve Government objectives. It espouses the five-case model which prepares business cases based on five interdependent dimensions. These are the strategic, economic, commercial, financial and the management dimension.

- 4.4 The economic case sits at the heart of the Green Book. It is a technique deeply entrenched in the Treasury’s thinking, having been used by Government since the 1960s, and variations of it are employed by institutions across the world<sup>37</sup>. CBA is a way of making a balanced judgement about the positive and negative impacts of a project, discounted over time.

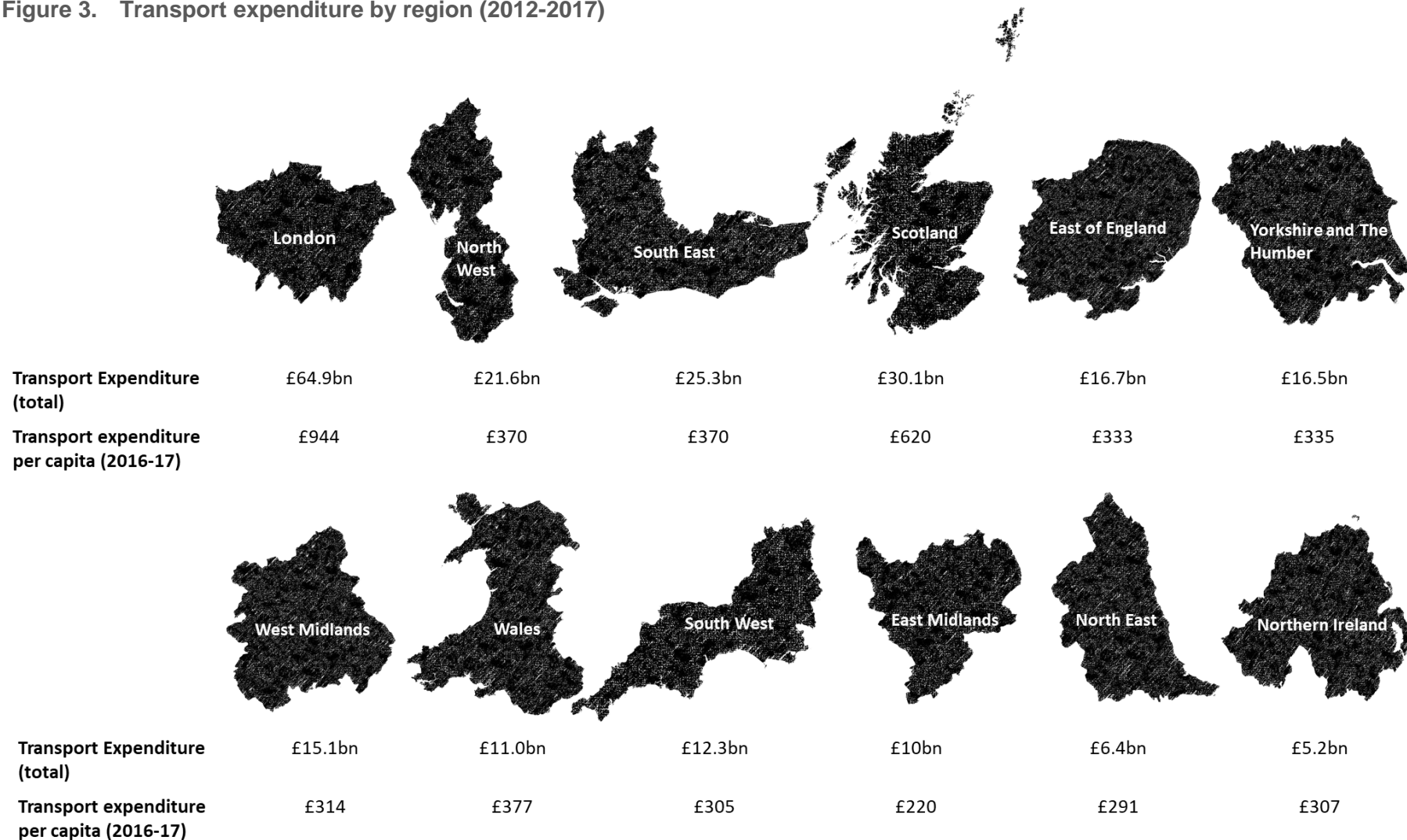
## Issue one

The inability of the Green Book to support investment in the right types of infrastructure and in the right places – resulting in a pattern of investment that has been skewed towards already successful areas such as the South and South-East.

- 4.5 **The Green Book provides little guidance on the spatial dimension of investment.** Either implicitly or explicitly, the Green Book enshrines traditional economic thinking and assumptions, that the economy works best with minimal state interference, a small public sector and low public spending<sup>38</sup>. Thus, the role of Government has become shoehorned into working to ‘correct’ markets, rather than as a market-maker which instils confidence and stimulates other investment.
- 4.6 A recent version of the Green Book warned that Government intervention ‘can incur costs and create economic distortions’<sup>39</sup>, and the Treasury has also tended to be apathetic towards the spatial consequences of economic policy, even the assertion that spatial imbalance may be conducive to national growth.<sup>40</sup>
- 4.7 **Therefore, the existing methodology has defaulted to a position that has exacerbated the status quo.** ‘Conventional cost-benefit analysis makes returns on south-eastern and London projects look more attractive because that is where the economic growth is’<sup>41</sup>. This is evident in historical transport spending patterns.
- 4.8 As shown in figure 3, the gap between spending on infrastructure between London and the rest of the country is evident in absolute and per capita terms. Between 2012/13 and 2016/17, £25bn was spent on the railways in London. The next highest investment was made in the North West at £5.5bn.
- 4.9 This skewing can be at least partly attributed to higher population density in the South and South East. User benefits are calculated in terms of time and cost savings, therefore the more people benefitting from a reduction in travel time as a result of investment, the higher the value of the scheme. The current appraisal methods, which heavily weight journey time saved, will always favour London.”<sup>42</sup>



Figure 3. Transport expenditure by region (2012-2017)



Source: Analysis of HMT's Country and Regional Analysis (CRA) 2012/13 – 2016/17

## Issue two

The inability of the Green Book to take a holistic view of the impact of potential investment underplays the wider benefits of infrastructure investment, resulting in underinvestment in infrastructure and restricting much needed investment in marginal areas.

- 4.10 **The current transport scheme appraisal methods disadvantage regions in need of economic regeneration.** This is working against the Government's intention to rebalance the economy<sup>43</sup>.
- 4.11 The traditional Green Book methodology seeks to understand the difference between 'do something' and 'do minimum' states as a result of the intervention.
- Cost benefit analysis focuses on static effects – changes to travel time and cost as a result of transport investment. This will capture wider economic movements such as increased tax returns from wage and productivity gains from firms and individuals being brought closer together. Travel demand is assumed to be fixed and varies over time with changes to factors that are caused by something other than the intervention, such as population, household structure, employment and income.<sup>44</sup>
  - The methodology does not hold well if factors in the 'do minimum' state change as a result of the intervention. These factors might change as a result of dynamic effects which occur when an intervention induces changes to the structure of the economy, such as increasing growth, influencing land use, increasing employment, investment and productivity impacts.
- 4.12 Therefore, whilst conventional cost benefit analysis is adept at picking up incremental change on smaller investments – on truly transformational interventions it can be problematic. The strategic case for High Speed Two (HS2) explicitly acknowledged that 'the benefit cost ratio methodology was not developed with a scheme in mind on the scale of HS2'<sup>45</sup>.
- 4.13 The Green Book and WebTAG have strict criteria for when dynamic effects can be assumed to have been produced, i.e. when investment can be assumed to change the structure of the economy. The conventional methodology assumes that these dynamic effects such as changing behaviours of consumers and firms, remain constant<sup>46</sup> and represent activity that is displaced from other areas, rather than generating additional activity. The appraisal also assumes that there is full employment<sup>47</sup>. Therefore, policies aimed at using transport investment as a means of raising employment, or affecting changes on skills, wages, productivity and impacting tax and health expenditure in areas with long term structural imbalances will struggle to make their case as strongly.
- 4.14 Many of the wider benefits of infrastructure are not easily captured via the Cost Benefit Analysis as they are not easily assessed or isolated. This is true for economic impacts linked to an intervention as well as others like security, environmental and health related impacts.

- 4.15 This tends to result in the transformational aspirations and objectives of the project being detailed in the strategic case, rather than being incorporated into the economic case, where they can rightly be subjected to more rigorous analysis like sensitivity testing and adjusting for optimism bias.
- 4.16 This is problematic because the primary metric used in reporting the cost-benefit analysis results is the benefit-cost ratio (BCR), which is produced by the Present Value of Benefits (PVB) and Present Value of Costs (PVC). Despite the Green Book being clear that the output of the economic case should never be a one number answer, in practice BCRs are often subject to the greatest focus of the appraisal process.
- 4.17 The result of this is that projects with a strong strategic case but a weaker BCR (potentially due to lack of dynamic effects modelled) struggle to get funded. Few schemes classed as 'medium value for money' – i.e. with a modified BCR of between 1.5 and 2:1 – and none classified as 'low' (with a value between 1.0 and 1.5) are likely to be approved. In contrast, the percentage of investment spending on projects classified as 'high' or 'very high' value for money was 89% in 2015 and 100% the previous year (DfT March 2015)<sup>48</sup>.
- 4.18 There is little scope in the current system for good strategic projects to overcome the narrow assessment of BCR that is at the centre of the Green Book methodology.
- 4.19 As such, much more needs to be done to ensure that there is a standard approach to recognise transformational and dynamic effects, to aid effective and transparent decision-making and overcome the narrow focus of the existing methodology.

### Issue three

**Recent updates to the Green Book do not change the underlying incentives and pattern of prioritisation granted to infrastructure investment.**

- 4.20 A recent revision to the Green Book directs users to consider land value uplift for costs and benefits where it is not possible to observe a direct price or that price will not entirely capture that particular cost or benefit. In the past, the value of development would have been calculated through the associated direct employment and GVA impacts<sup>49</sup>.
- 4.21 Land use value is determined by use, location (e.g. proximity to urban centres), infrastructure (such as transport connectivity) and the cost of development for an alternative use (planning permission)<sup>50</sup>. Land value changes arising from a change in land use are a helpful method of estimating the market value of an intervention rather than trying to value the underlying factors that caused the change<sup>51</sup>. It is the difference between the new land value and the previous land value which represents net private benefit, and allowing for discounting, deadweight and displacement, the social benefit. The higher the resultant benefits vis-a-vis the costs, the higher the BCR and value for money.
- 4.22 The subject of value in land markets is under the spotlight, as Government has consulted on the issue of Developer Contributions through the National Planning Policy Framework.

Deloitte's report to The Peel Group, 'Land Value Capture Research – Interim Report & CLGSC Consultation Response', emphasises the complexity of Land Value Capture, particularly in the challenging environment of the UK's regional markets and the commercial reality for development entities like Peel Group. It is imperative that any LVC regime is responsive to local context so as not to undermine incentives to deliver housing and economic growth<sup>52</sup>.

## 2. Rebalancing toolkit

4.23 The Industrial Strategy, published in November 2017, set out the rationale for a Rebalancing Toolkit, namely that 'an approach based solely on static analysis can favour investment in places where development has already happened, and overlook long-term benefits that infrastructure can bring to a place'<sup>53</sup>. The Industrial Strategy highlighted that the Rebalancing Toolkit would:

- 'make use of broad-based and dynamic assessment techniques that reflect the full potential for infrastructure to support local economies'
- 'provide a framework to support high value transport investments in less productive parts of the UK...[and]...ensure that the dynamic benefits of investment are considered more strategically by improving the focus, quality and transparency of 'rebalancing' evidence in strategic business cases – and applying it more consistently'
- 'mean that no decisions on significant investments are taken without due consideration being given to the impact of investments on local growth'<sup>54</sup>

4.24 Similarly, the Transport Investment Strategy stated that the new approach would 'require investment programmes to be judged on how they contribute towards creating a more balanced economy, as part of the overall assessment of their strategic case'<sup>55</sup>.

4.25 Finally, the Industrial Strategy stated that 'cost-benefit analysis will remain central to decision making'<sup>56</sup>, whilst the Transport Investment Strategy similarly stated that the Government would 'continue to prioritise the highest value-for-money projects while also taking account of wider strategic aims, as we seek to address productivity weaknesses across the country and unlock the benefits of agglomeration economies'<sup>57</sup>.

4.26 Given the above, it was reasonable to expect that the Rebalancing Toolkit:

- Would form an integral part of the Green Book appraisal methodology.
- Would create a binding consideration to prioritise investments that support long-term local growth, particularly in less economically productive parts of the UK.
- Would focus on investment in a broad sense – encompassing infrastructure, energy, housing, and commercial space investments across the country.

4.27 The Rebalancing Toolkit was published by DfT in December 2017. It was published as a version one with a request for comments, but not as a formal consultation. At the time of writing, there has been no further update to the December 2017 document.



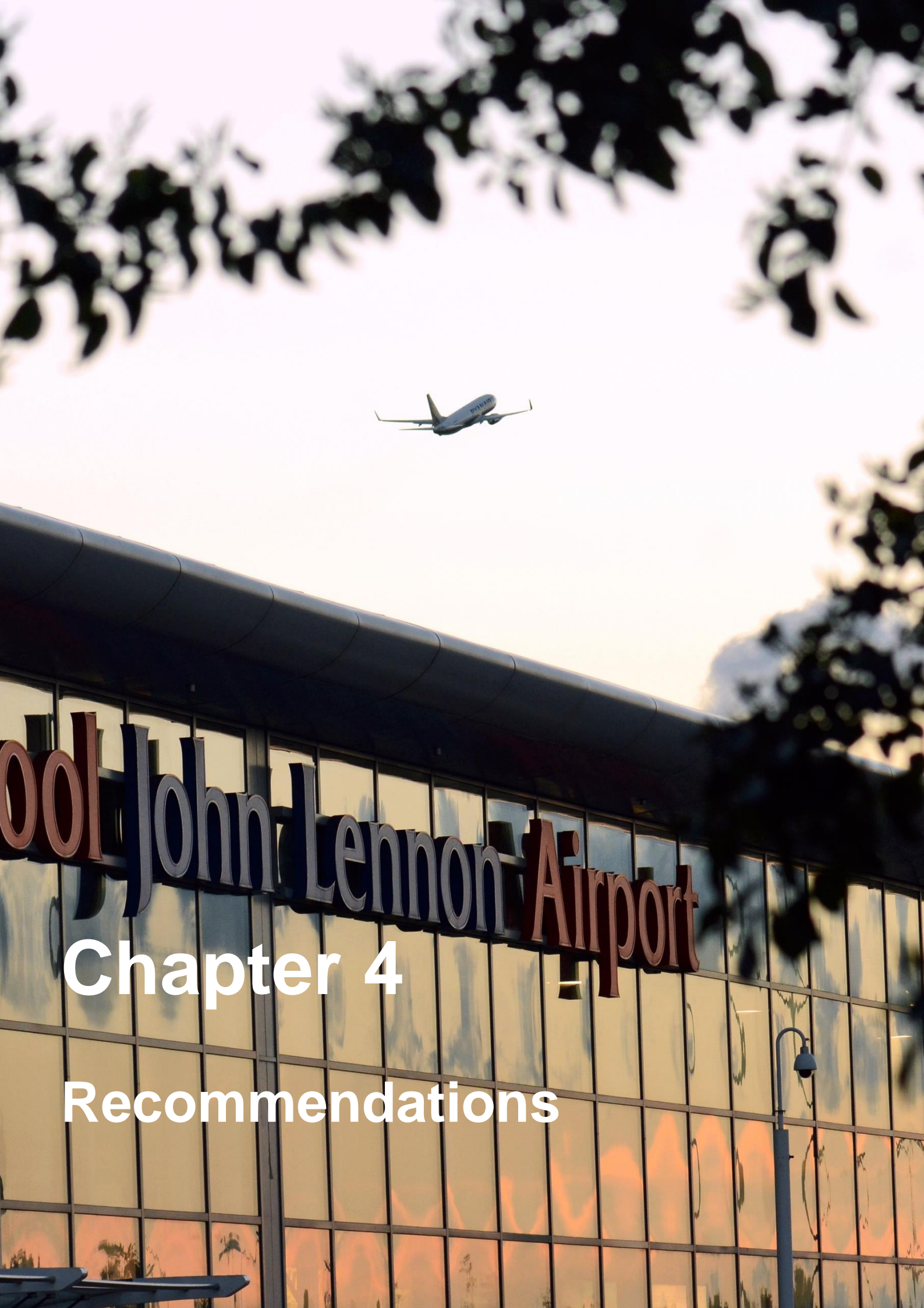
- 4.28 The Rebalancing Toolkit as published is a relatively brief document, just 14 pages, divided into two parts: business cases and investment programmes. The contents of the Toolkit are described as being ‘designed to help authors of strategic cases assess how a programme or project fits with the objective of spreading growth across the country’. The Toolkit is described as being a ‘live document and open to change’. The scope of the Toolkit is described as:
- [applying] ‘to cases where rebalancing is an objective of the project or programme’
  - [being] ‘not binding and intended to be a proportionate tool used in major projects where rebalancing is an objective’<sup>58</sup>
- 4.29 That the Toolkit focusses largely on transport is made clear by the statement that: ‘it is expected that...[the Toolkit]...will be more applicable to larger transport projects which enhance networks, and less applicable to small maintenance and renewal projects’<sup>59</sup>, though later in the document the importance of a wider programme of investments is noted: ‘transport investment is a necessary but not sufficient condition to support economic performance in an area or region...it is important that an integrated package of policies are delivered to maximise the potential for transport investment to support rebalancing’<sup>60</sup>.
- 4.30 When considering business cases, the Toolkit makes clear that much of the evidence for rebalancing challenges and opportunities can be drawn from the strategic case and economic case element of the five cases model. It provides some guidance on additional questions that can be asked of a proposed intervention that address some of the evidence required to make a case for regional investment. In all cases, though, this additional evidence is described as ‘potential evidence’ – reinforcing the point that the Toolkit is optional rather than integral to the appraisal process.
- 4.31 The investment programmes section is stronger on specific things that programme managers should do to ensure rebalancing, including: analysing the distribution of investment, considering how best to support rebalancing (options analysis), being clear about the logic of rebalancing, and properly consulting stakeholders.
- 4.32 Nonetheless, the Toolkit states that ‘programmes with rebalancing as an objective should consider these questions [relating to balance of spending, support and rebalancing outcomes across regions] as part of programme development’<sup>61</sup>, implying that this does not apply to programmes that do not explicitly identify rebalancing as an objective.
- 4.33 Therefore, the overall effect of the Rebalancing Toolkit is significantly less than the stated objective of the Industrial Strategy and the Transport Investment Strategy. The Toolkit is non-binding and purely to be considered on a case-by-case basis, rather than a mandatory part of Green Book analysis. The guidance on programmes is stronger, but again is non-binding and dependent on the programme in question identifying rebalancing as a core aim.
- 4.34 Therefore, the Toolkit is a useful – but very incomplete – start towards the stated rebalancing aims of the Industrial Strategy. In order that the Toolkit create a meaningful

impact, it is essential that it be made a core, non-discretionary part of the Green Book process, not only for transport projects but for all major public-sector investments. Further, it is essential that the Toolkit set out clearly the relative importance of rebalancing as a factor for investment decisions so that these issues are properly considered and so that investment does not simply continue to accrue to more economically successful parts of the country.

## New funding sources

### The UK Shared Prosperity Fund

- 4.35 The UK has been allocated €17.2 billion of European Structural Investment Funds between 2014 – 2020<sup>62</sup>, a figure which is largely comprised of European Social Fund (ESF) and European Regional Development Funds (ERDF). This funding is the European Union’s primary instrument to reduce disparities between the level of development of its various regions and for helping less developed regions catch up. When UK structural funds are reallocated, it will be up to the Government to consider how to disburse this funding.
- 4.36 From 2019, the UK Government has committed to creating a Shared Prosperity Fund to replace European Structural Investment Funds. The 2017 Conservative Manifesto promised that Government would “use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy.”<sup>63</sup>
- 4.37 This new fund will inherit the legacy of EU regional spending and should continue to finance initiatives to promote local growth and address inequality, but there is also a big opportunity: to actively target rebalancing the economy, both between and within regions.
- 4.38 Government should explicitly promote the Shared Prosperity Fund for regional economic rebalancing and recognise the centrality of infrastructure within this as critical for the long-term competitiveness of a modern economy. This should involve a choice of metrics that allows an allocation of funding according to regional need and which recognises the key role of Combined Authorities and LEPs in determining a regional programme for these funds.



# John F. Kennedy International Airport

## Chapter 4

### Recommendations

- 5.1 The previous sections emphasised the structural lack of investment in infrastructure in the UK in recent decades which has been particularly detrimental to areas outside London and Southeast. Metro Dynamics argue that this is often a result of two things:
- Firstly, a lack of appropriate national and regional strategic planning that recognises the importance of infrastructure for driving economic growth
  - Secondly, the inadequacy of decision-making tools (particularly the Green Book) which has not been adequately addressed through the Rebalancing Toolkit
- 5.2 Together, this lack of strategic vision and practical assessment methodology has engendered systematic underinvestment in infrastructure and encouraged the concentration of investment in more economically successful parts of the country, reinforcing longstanding regional imbalances in the UK.
- 5.3 Section 3 noted that the UK has historically been a frontrunner in infrastructure investment, and that actions undertaken by both the public and private sectors have been instrumental to securing long term success both in regions that have struggled economically and those that were considered unlikely candidates for investment. The new city mayors, and the regional powerhouse structures, along with the NIC, are important new enablers of regional planning and investment, but more is needed.
- 5.4 **Metro Dynamics therefore make the following recommendations to boost infrastructure investment and support economic growth and rebalancing.**

- Government should explicitly promote the Shared Prosperity Fund for regional economic rebalancing and recognise the centrality of infrastructure within this as critical for the long-term competitiveness of a modern economy.
- The NIC was established to provide the Government with sound, independent technical advice on the UK's infrastructure needs. The NIC is in an important position to reinforce the positive messages about infrastructure and economic growth in its communication with Government and stakeholders. At the same time, the NIC's mandate should:
  - Clearly enshrine the principle that infrastructure is a significant factor in driving economic growth.
  - Be extended from supporting “sustainable economic growth across all regions of the UK”<sup>64</sup> to a broader mandate of rebalancing the economy and to champion infrastructure investment in all parts of the country in its assessments, recommendations and studies.
  - Focus on other important infrastructure corridors, particularly in the Midlands and North, to complement the existing focus on the Oxford-Cambridge corridor.
  - Ensure that the National Infrastructure Commission continues to champion and encourage the opportunities in the National Infrastructure Assessment.



- Ensure that private investors and developers are regularly engaged.
- Combined Authorities and other sub-regional local government bodies like the Northern Powerhouse, Midlands Engine and their sub-national transport bodies are fulfilling a vital role in providing an evidence base, making decisions, and planning long-term for their regions. This should be recognised by Government, and the NIC should work more proactively with regional and city leaders to understand their priorities and ensure that local and regional objectives in the North and Midlands are reflected in national priorities.
- Further, reflecting the role of the London Plan in driving investment in the capital, the Government should encourage Mayoral Combined Authorities to have similarly strong statutory planning policies that promote, rather than constrain economic growth.
- Combined authorities should work to proactively engage key private sector players in their area at a strategic level to deliver shared ambitions for transformational change.
- Either through the Rebalancing Toolkit – or as part of a broader review of the Green Book carried out in partnership with Mayoral Combined Authorities and the NIC – the Government must ensure that cost benefit analysis / appraisal techniques:
  - Clearly set out the relative importance of rebalancing as a factor for investment decisions so that these issues are properly considered, and so that investment does not simply continue to accrue to more economically successful parts of the country.
  - Do not rely on measures of economic success that penalise less economically successful places. Specifically, the use of land value uplift as a measure runs counter to the principle of rebalancing and should be replaced with a focus on employment and measures of inclusive growth (recognising the social value of reducing unemployment in parts of the country that are less economically successful).
  - Recognise the relative cost-effectiveness of developing infrastructure in less economically successful parts of the country.
  - Recognise the dynamic effects of infrastructure investment on the UK economy, so that these effects can be measured in a consistent way and subject to critical analysis along with other effects.
  - Apply these principles to all forms of infrastructure in the same way, not just transport schemes.
- Enshrine all of the above as a core, non-discretionary part of the Green Book process.





# Appendices



The following case studies demonstrate examples of infrastructure acting as a driver of economic rebalancing and make the case that both the public and private sectors have a role in planning, executing and maintaining infrastructure.

### Ocean Gateway

- The Ocean Gateway initiative is an internationally significant programme of private sector investment in transport, logistics, communities and regeneration, and sustainable resources. It is an important example of the impact that can be generated by coordinated private sector investment and active engagement to produce a public-private coalition of interest within a geographic area, in this case the wider Atlantic Gateway.
- 5.5 Ocean Gateway is a bold vision for strategic infrastructure investment along an urban corridor between Liverpool and Manchester to unlock economic potential in the North West of England.
- 5.6 Ocean Gateway projects embrace ports, logistics, retail and leisure, residential, commercial development, media infrastructure, and renewable energy. Signature schemes include Liverpool2, Liverpool Waters, Wirral Waters, Liverpool John Lennon Airport, Protos, Port Salford, TraffordCity, MediaCityUK, Manchester Waters and Hulton Park. Over £1bn of investment by The Peel Group in the programme's first five years from its launch in 2008 has leveraged an additional £1bn of other private sector investment. The vision is to land £50bn investment in these 50 projects over a 50-year lifespan. Ocean Gateway sits within the area covered by the wider Atlantic Gateway public/private partnership. Sixteen Ocean Gateway projects formed part of the first Atlantic Gateway growth plan<sup>65</sup>.
- 5.7 Peel Group has maintained an open dialogue with public and private partners, sharing its plans for Ocean Gateway within the wider Atlantic Gateway context. Atlantic Gateway has garnered support from key players in the region to cut across territorial politics and is underpinned by a broad public and private sector growth coalition. Its board includes three business representatives from each of its constituent LEPs, three local authority leaders from each of the LEP areas, one voluntary sector member and at least three private sector representatives<sup>66</sup>. They work to define policy themes in the corridor on the basis of shared priorities such as rebalancing the economy, inclusive growth, infrastructure, science and innovation and logistics.

### Manchester Ship Canal/Salford Quays

- The reinvention of Manchester Ship Canal demonstrates the need for economic leadership, and the requirement of a first-mover investor on some occasions to stimulate change and re-establish a place within a new economic context. Concerted infrastructure investment by Peel along the Canal, in tandem with property development on Salford Quays, played a pivotal role in allowing the area to develop and support a wider economic base and a successful post-industrial revival.

- 5.8 Manchester Ship Canal forms the geographic core of the Atlantic and Ocean Gateway programmes. It is a historically significant area which, when it opened in 1894, was the largest river navigation canal in the world and was carrying almost 20 million tonnes annually until the 1950s. The Canal was crucial to prosperity in Manchester and surrounding areas, it anchored Manchester's success as the global centre of cotton trading and as such, the city's Docks and concomitant industries were a major employer. Thus deindustrialisation, changing patterns of trade and containerisation had a devastating impact on usage and ultimately precipitated the Docks' closure in 1982<sup>67</sup>.
- 5.9 Peel invested £400m to create a new deep-water container terminal at the Port of Liverpool. This makes the city accessible to the world's largest (post-Panamax) container ships.<sup>68</sup> This is steadily being integrated with the rest of the canal – Port Salford, a freight terminal at Barton-upon-Irwell, is consented and in development at a cost of £138m, and will combine rail, road and canal/sea connectivity to become the UK's first tri-modal inland facility. These will provide a distribution base to improve supply chains for businesses across the North West and will enable direct coastal shipping access to the river terminal at the Port of Liverpool.
- 5.10 Adjacent developments have complemented improvements to the waterway, primarily the physical redevelopment of Manchester Docks at Salford Quays. This is now an important office and residential location employing over 16,000 in the Quays and immediately adjacent areas, which has helped reverse the historic decline in the town's employment and ensures a wider economic base in high-growth industries.
- 5.11 Peel has expressed a long-term aim of boosting capacity at the Port of Salford from 8,000 containers a year to 100,000 by 2030, and, in line with the Atlantic Gateway programme, to fully integrate the corridor from Liverpool to Manchester, helping revitalise the economy of this wider area.<sup>69</sup>

### MediaCityUK

- The move of some of the BBC's national operations to MediaCityUK, part of the wider redevelopment of Salford Quays, is a practical example of successful economic rebalancing. London is a natural centre for a great deal of political, cultural and economic life, thus it is significant that Salford Quay's MediaCityUK has established itself as a creative hub for over 250 businesses and the northern headquarters for the BBC, ITV and Ericsson. This reflects long-term redevelopment efforts and the centrality of infrastructure investment to igniting growth.
- 5.12 From 2011, significant parts of the BBC's activities were relocated from London to MediaCityUK in Salford, including BBC Sport, Radio 5 Live, Children's, Learning, and BBC Breakfast. The move was one of the largest recruitment drives in the corporation's history and half of the posts were filled by people living in the North West.<sup>70</sup>
- 5.13 MediaCityUK has generated over £1bn of investment since its inception, making possible a media and creative industries hub in Salford, housing over 250 digital businesses and drawing in Salford University's journalism department. Further large-scale development –



doubling available office space, adding a 330-bed hotel and 1,800 homes – is set to cement MediaCityUK’s position as a creative hub at the heart of the wider revitalisation of the Atlantic/Ocean Gateway area.

- 5.14 The BBC’s activities in the North West have comprised of £137 million of indirect GVA for the BBC’s Tier 1 suppliers, £80 million of indirect GVA in the wider supply chain, and £59 million of induced GVA. Further gains derive from agglomeration benefits such as reduced barriers to collaboration for smaller, independent digital agencies, improvements to the quality of outputs for firms collaborating with the BBC and a greater flow of creative industry talent to the area.<sup>71</sup>

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