

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2188

Title: London Simulator – enhancements

Executive Summary:

The Revolving Investment in Cities (RICE) project (approved through MD2062 and MD2105) has as its objective the development of new Financial Instruments and tools that will increase private sector investment into smart cities, environment and regeneration priorities. The total GLA RICE budget is €293,766 and as part of this there is a ringfenced budget of up to €125k for some consultancy support to take forward a London specific piece of work that adds to the wider project's aims.

The proposal is to use this budget to help fund the next stage of work on the London Simulator (LS). The purpose of the LS is to create a dynamic system modelling tool so that the wider economic impact of potential investment proposals can be more easily demonstrated to stakeholders. This has potential to drive increased private sector investment in proposals as the total project impact can be more clearly demonstrated. The Infrastructure and Growth team would fund the remaining funding envelop for this next stage works (£100k) from the infrastructure budget (MD2162).

MD2105 delegated authority to the Executive Director for Development, Enterprise and Environment to allocate the RICE budget, and it is under this delegation that the Director's approval is being sought.

Decision:

That the Executive Director of Development, Environment and Enterprise approves expenditure of up to £210,000 from the following sources of funding for the next stage development of the London Simulator¹:

1. £110,000 (£125,000) of MRA RICE sub-consultancy budget;
2. £100,000 of the Infrastructure programme budget.

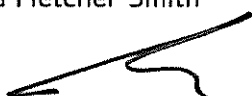
AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

Name: Fiona Fletcher-Smith

Signature:



Position: Executive Director, DEE

Date:

20.12.17

¹ MD2062 and MD2162 have been previously approved.

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

MRA RICE

The GLA was successful in its bid for some Revolving Investment in Cities (RICE) European funding, which will be used to further the development of new financial instruments and tools which increase private sector investment in innovative technological products and initiatives aimed at smart cities, environment and regeneration issues in urban areas. The total award for the partner cities is €2.3m and the project will last for 12 months. Our partners include the City of The Hague (lead partner), Milan and Manchester City Council. The GLA's share of the award is €279,766. The project is approved by MD2062 & MD2105.

The funding needs to be used to explore how to increase the use of Financial Instruments²(FIs) which then result in an increase in the levels of investment (both public and private) deployed through them. This research project can be split into macro level work and micro level initiatives.

Macro

The macro level work, which will be delivered in consort with all project partners is split into 3 phases. These are i) understanding market needs; ii) identifying barriers to increasing private sector investment and iii) developing standardised solutions to overcome the barriers. Work on this is under way and the first phase is due for completion by early December 2017.

Micro

The micro level work is specific to London's needs and priorities. Within the GLA's share of the budget we intend to procure (using TfL's procurement service) external consultancy to develop a London specific priority area which falls within the project's overarching objectives.

Emerging findings from the phase 1 work are illustrating the need to have a more systemic approach to understanding the impact of projects, in combination rather than in siloes. We propose to use this funding to co-fund the next stage deployment of the London Simulator (LS). The LS provides a tool, which can help overcome one of the major barriers to increasing investment levels. We have presented and engaged with our European partners on our intention, who are supportive of the proposed spend of our share of funding.³

London Simulator

The LS will allow Greater London to use dynamic modelling tool to examine:

- The impact of infrastructure investments on growth of population, employment, housing, business space, commuting, GVA, and tax revenues in Greater London;
- National returns on public investments in Greater London and implications for funding and financing such investments.

Important findings are emerging from the existing LS:

- The LS is providing reliable, joined-up, evidence-based measurement of local and/or national social, economic, and fiscal impacts from public investments in Greater London.

²* **Financial Instruments** (FIs) are an umbrella term for a variety of financial products that are designed to address public policy objectives. FIs can take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may be combined with grants. They often are a blend of public and private finance and usually use the publicly funded element as the cornerstone investment to leverage in private finance. The London Green Fund is an example of an FI used in a London context in the recent past.

³ In fact, some of them are keen to explore the potential of using system dynamics for their own analyses.

- From the Jubilee Line Extension to Crossrail 2, infrastructure projects in Greater London produce substantial socioeconomic benefits and quite high national returns (in excess of typical CBA value metrics).
- The LS also quantifies large, long-lasting social and economic costs from public investments that are not made due to funding and other constraints (“the cost of not investing”).
- Effective public infrastructure investments can be reliably and demonstrably self-funding; harnessing this capability can leverage government funding and increase UK public infrastructure investment in a self-reinforcing “virtuous circle”.

2. Objectives and expected outcomes

The main purpose of this project is to use the London Simulator to assess the potential overall fiscal impacts of a variety of potential investment projects, in various combinations. This will be the first time that such an approach has been taken for major capital investment propositions. Being able to articulate and quantify the rate of return of investments would massively help with the development of new financial instruments and tools that would increase private sector investment in the Capital.

These findings would inform discussions with and could be applied at the European level to support the similar requirements of our partner cities in the RICE projects.

The funding outlined in this document will enable necessary enhancements to the LS including:

- Upgrading the simulator from its current two-geography representation to separately simulate London’s Central Activity Zone and outer boroughs and to separately simulate transport-specific corridors between central and outer London boroughs and beyond.
- Continuing to employ software which automates the process of simulator calibration and validation, as verified by simultaneous and faithful independent reproduction of historical benchmark time-series data for Greater London (to close tolerances using robust error-rate metrics).
- Continuing to provide and enhance a user-friendly interface readily accessible by the GLA and potentially by other stakeholders that graphically displays a wide range of simulator outputs, simultaneously for each of multiple scenario simulations.

These enhancements will then enable the simulator to be used more effectively to assess the high level impacts of capital investment propositions (and combinations thereof) on key output and outcome indicators in the city.

We will undertake a competitive procurement through an OJEU process via TfL procurement, in line with European standards.

3. Equality comments

The GLA as a public authority must comply with the Public Sector Equality Duty set out in section 149 (1) Equality Act 2010. This provides that, in the exercise of their functions, public authorities must have due regard to the need to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- a. The obligation in section 149(1) is placed here upon the director , as decision maker. Due regard must be had at the time a particular decision is being considered. The duty is non-delegable and must be exercised with an open mind.
- b. This duty also applies in the delivery of European funded projects and means that delivery of this RICE funded project must consider the needs of all individuals and have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people.
- c. The same apply for the funds under the infrastructure investment programme as highlighted also in MD2162.

The London simulator is a high level model that aggregates various elements of the city systems. It will help the city understand aspects of equality in terms of likely outcomes on a range of indicators from prospective capital investments, including housing affordability, job availability (at different income levels) and other metrics. The simulator has the potential to be further enhanced in future to address other equality considerations.

4. Other considerations

a) Key risks and issues

4.1 System dynamics has been used successfully as a technique across the corporate world and there are signs that central government is looking for alternative methods to assess the wider impacts of projects. However, there are risks particularly around Central Government's appetite to respond to our requirements and also in terms of how the wider investment community responds to our recommendations. These are detailed below.

	Risk description	Mitigation / Risk response	Probability	Impact
1	The London Simulator does not deliver palatable results.	We have undertaken in-depth due diligence on the potential of system dynamics to help us articulate the fiscal impact of capital investments. These can then be used to give investors assurance with regards to the rates of return and the ability articulate targeted financial instruments.	LOW/MEDIUM	HIGH
2	The results of this work fail to influence our stakeholders.	We have outlined in our procurement ITT a clear engagement strategy both internally and externally. Already to date, we have received a lot of support from the investment community and other key stakeholders (including central government,	LOW/MEDIUM	HIGH

		the National Infrastructure Commission).		
3	Our European partners are not satisfied with outcomes.	Engagement to date has indicated in-principle support for the programme, as well as our approach and proposals. Continued engagement will monitor progress.	LOW	HIGH
4	Timescales are not met	Governance structures are in place to monitor progress on all our activities	LOW	LOW

b) Links to Mayoral strategies and priorities

4.2 The existing London Simulator provides a framework and an evidence base to make the case and help deliver parts of the London Plan, Mayor's Transport Strategy, London Environment Strategy, Housing Strategy and the Economic Development Strategy.

The programme integrates the Mayor's priorities around:

- planning for London's future needs
- building the infrastructure of the future
- housing and infrastructure investment
- ensuring business prosperity and opportunity
- delivering good growth

c) Consultation

Stakeholder engagement - Throughout the development of the first phase of the Simulator, we have consulted extensively with stakeholders to gain insight and alternative view points as well as to ensure buy-in. This has been done through roundtable discussions with key groups, presentations and a number of bi-lateral discussions.

Advisory Groups - We will be setting up time-limited internal and external Advisory Groups to provide additional guidance and input to the enhancements. The Groups will meet regularly and provide a valuable source of expertise and contacts.

The meetings with our European partners will provide another valuable source of guidance and support.

5. Financial comments

- 5.1 The total estimated cost of this project is £210,000 and will be part funded from the 4-Year Infrastructure & Growth budget approved by MD2162 up to the value of £100,000, with the additional £110,000 (€125,000) being sourced from the Revolving Investment in Cities (RICE) European budget approved via MD2105. It should be noted that the RICE budget is wholly funded by EU income.
- 5.2 With regards to the EU income and in line with MD2105, the GLA will make claims for the reimbursement of costs in arrears based upon actual spend and will be paid in euros. Consequently, there is the risk that the GLA will suffer from exchange rate losses and the income received will not cover the expenditure incurred. Whilst it is not possible to estimate how much the potential loss will be; the losses will be contained within existing budgets.

6. Legal comments

6.1 The foregoing sections of this report indicate that:

- 6.1.1 the decisions requested of the Director concern the exercise of the GLA's general powers, falling within the statutory powers of the GLA to do such things as may be considered to further, and or be facilitative of or conducive or incidental to the fulfilment of the GLA's principal purposes; and
- 6.1.2 in formulating the proposals in respect of which a decision is sought officers have complied with the GLA's related statutory duties to:
 - (a) pay due regard to the principle that there should be equality of opportunity for all people;
 - (b) consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
 - (c) consult with appropriate bodies.

6.2.1 The GLA must, in the exercise of its functions, have due regard to the need to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010 ("the Act");
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

6.2.2 Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; and
- (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

6.2.3 The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

6.2.4 Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to: tackle prejudice; and promote understanding.

- 6.2.5 Compliance with the above duties may involve treating some persons more favourably than others, but that is not to be taken as permitting conduct that would otherwise be prohibited by or under the Act.
- 6.2.6 The relevant protected characteristics are: age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation.
- 6.2.7 A reference to conduct that is prohibited by or under the Act includes a reference to a breach of: an equality clause or rule; or a non-discrimination rule.
- 6.2.8 To this end the director should have particular regard to section 3 (above) of this report.
- 6.3 Officers must ensure that the services required are procured by Transport for London Commercial who will determine the detail of the procurement strategy to be adopted in accordance with the GLA's Contracts and Funding Code. Officers must ensure that appropriate contract documentation is put in place and executed by the successful bidder(s) and the GLA before the commencement of the services.

7. Planned delivery approach and next steps

Activity	Timeline
Announcement [publish in the OJEU]	w/c 11/12/17
Delivery Start Date [for project proposals]	18/01/18
Delivery End Date [for project outputs]	30/03/18

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.

Note: This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:**Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason:

This request for a director's decision contains information the disclosure of which prior to the conclusion of the proposed procurement may distort genuine competition for the services required. Publication at this point would therefore, prejudice the commercial interests and ability of the GLA to secure value for money which is not in the public interest

Until what date: 31 January 2018

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Dominic Bloomfield and Madalina Ursu have drafted this report in accordance with GLA procedures and confirm that:

✓

Assistant Director/Head of Service:

Jeremy Skinner has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

Corporate Investment Board:

The Corporate Investment Board reviewed this proposal on 18 December 2017.

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

Date

20.12.17

TOM MIDDLETON ON BEHALF OF MARTIN CLARKE