MAYOR OF LONDON

HM Treasury Infrastructure Finance Review Consultation Response

The GLA Group

June 2019

MAYOR OF LONDON

CONTENTS

1. SUMMARY AND RECOMMENDATIONS 1

2. INTRODUCTION 3

3. THE GLA GROUP'S USE OF FINANCE 4

4. THE ROLE OF THE EIB (CONSULTATION QUESTIONS 3, 4, 16) 5

5. ALTERNATIVE FINANCING APPROACHES 7

6. FUNDING PUBLIC INFRASTRUCTURE THROUGH GROWTH (CONSULTATION QUESTIONS 8, 9) 9

7. INFRASTRUCTURE FINANCE SUPPORT FOR HOUSING ASSOCIATIONS (CONSULTATION QUESTION 12) 10

ANNEX 1. FUNDING THE NORTHERN LINE EXTENSION 12

ANNEX 2. GLA GROUP BUDGET 2019-20 13

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1. Summary and recommendations

1.1. Supporting the GLA Group's significant investment programme both historically and in the future has and will require raising significant levels of financing. Enough recurring funding to service any required finance for such investment is essential. In the absence of any direct (i.e. grant) funding, identifying reliable alternative additional cashflows are a prerequisite to taking on further debt, no matter whether through direct borrowings or structured finance.

1.2. The role of the EIB (consultation questions 3, 4, 16)

1.2.1. The European Investment Bank (EIB) has been a key financing partner in enabling GLA Group investment in infrastructure via efficient pricing and the capability to manage interest rate risk.

1.2.2. We would strongly support retaining access to the EIB on the same terms as European Union member states. However, if this is not possible, the effects of losing current access terms could be mitigated if an equally competitive and flexible source of borrowing was available for public authorities as well as our supply chain.

1.2.3. Changes to the Public Works Loan Board (PWLB) could also offer some mitigation to local authorities. A reduced rate from the PWLB would allow the GLA Group to continue borrowing at competitive interest rates, while offering forward starting loans would allow more certainty on future interest payments, providing a mechanism to reduce interest rate risk and enable more accurate budgeting.

1.3. Transport for London (TfL) currently restricts its corporate borrowing to the limits agreed and set during spending reviews in addition to the Prudential Borrowing Regime. This has historically created an artificial benefit to pursuing alternative financing approaches where corporate borrowing capacity has been restricted. The Government should cease setting borrowing limits for TfL (which could be effected in this year's spending review) and allow the Mayor to exercise his devolved power to set them himself. With borrowing limits solely governed by the Local Government Prudential Borrowing scheme, TfL would be able to achieve a more efficient capital structure to deliver its investment programme.

1.4. Application of existing models in alternative contexts (consultation questions 8, 9)

1.4.1. Having and retaining access to alternative funding arrangements allows the GLA Group to base procurement decisions solely on value for money, rather than its focus being skewed by a desire to access so-called "off balance sheet" finance such as through providing guarantees of long-term funding to support utilisation of structured finance.

1.4.2. Determination from HM Treasury of whether the update to International Financial Reporting Standard (IFRS) 16 will be adopted as part of the European System of Accounts (ESA) 2010 will provide clarity for future investment, where leasing presents a value for money procurement route.

1.4.3. Funding infrastructure investments through growth should be an accepted model in taxpayer paid for sectors, as it is in consumer paid for sectors. As an initial measure, the government should allow the GLA Group to implement Enterprise Zone-style funding structures for transport projects that ringfence uplifts in stamp duty in addition to business rates.

1.4.4. Beyond such tax increment financing approaches in specific locations, HM Treasury should consider options for funding infrastructure projects through the fiscal impacts that well-chosen projects have on whole city systems. The GLA Group has invested in dynamic simulation technology as a tool for estimating and validating whole-city project impacts, including on tax flows to the exchequer.

1.5. Infrastructure finance support for housing associations (consultation question 12)

1.5.1. While the GLA Group supports the continuation of the Affordable Housing Guarantee Scheme, which can help to lower housing associations' borrowing costs, delivering affordable housing at scale is not financeable so will fundamentally not be possible without increased, streamlined and devolved grant funding.

2. Introduction

2.1. The GLA Group comprises the Greater London Authority (GLA); its functional bodies Transport for London (TfL), the London Fire Commissioner (LFC), and the Mayor's Office for Policing and Crime (MOPAC); and two mayoral development corporations (the London Legacy Development Corporation (LLDC) and the Old Oak and Park Royal Development Corporation (OPDC)).

2.2. The GLA is London's strategic planning authority, with a statutory responsibility to promote London's economic and social development and improvement of the environment. Infrastructure investment is essential to achieving on these objectives. The GLA facilitates infrastructure delivery to support development across London through its grant making powers for Housing and Land and Regeneration, as well as geographically focused efforts through the LLDC and OPDC. Furthermore, the GLA has direct powers over transportation infrastructure, as delivered through TfL.

2.3. TfL is the integrated transport authority and dominant provider of public transportation in London. TfL's network is the largest urban transit system in the United Kingdom and one of the largest in the world. TfL's operations include the London Underground, London Buses, London Overground, Docklands Light Railway, TfL Rail, and London's strategic road network. TfL also manages the London congestion charging system and wholly owns Crossrail Limited, responsible for constructing the Elizabeth line as required by the joint project sponsors, the Department for Transport and TfL.

2.4. In support of London's growth, TfL's programme of transport capital investment is one of the world's largest, with TfL investing £2bn per year on average over the next five years. TfL's capital programme includes building the Elizabeth line, modernising Tube services and stations and transforming the road network.

2.5. The LFC and MOPAC are responsible for overseeing delivery of fire and policing services, respectively, in London. While their engagement in the economic infrastructure space is limited, they have entered into some relevant alternative financing structures, as detailed later in this response.

2.6. The consultation raises a number of questions around financing structures that are not currently relevant to GLA Group's existing capital funding strategies. The following responses focus only on those issues which directly affect us, rather than the issues which face other market participants, for example equity investors.

2.7. This consultation response first summarises the GLA Group's use of finance for infrastructure (Section 3). Section 4 responds to questions related to the EIB, its role in the GLA Group's financing strategy, and the potential need for a replacement. Section 5 describes how the GLA Group has used alternative financing structures when necessary. In response to consultation questions on the applicability of existing models to new sectors, Section 6 makes the case for a growth-linked approach to funding public infrastructure. Section 7 responds to a specific review question on infrastructure finance support for housing associations.

3. The GLA Group's use of finance

3.1. The GLA

3.1.1. A considerable portion of the GLA's investment in infrastructure is funded via grants and therefore dependent on Government discretion. For instance, nearly all the GLA's Housing and Land investment programmes are grant-funded, recently accompanied by the Housing Infrastructure Fund as another major funding source.

3.1.2. Before the start of this decade the GLA had no debt. At the turn of this decade the GLA will have some £5.8bn of debt. This consists of:

- Just over £4bn for Crossrail;
- £1bn for the Northern Line Extension (NLE);
- £0.5bn for Housing Financial Transactions;
- £0.2bn of Olympic debt; and
- £50m for the Royal Docks.

3.1.3. The GLA also manages all the GLA Group's external debt, other than that of TfL. Currently this includes some £331m for the LLDC, £317m for MOPAC and £69m for LFC. The LLDC's debt is set to increase by a further £150m and the total debt will be repaid from capital receipts arising from the development of the Queen Elizabeth Olympic Park. MOPAC's debt is set to increase by a further £700m as part of the Met's transformation programme. This debt is to be repaid from within the discretionary revenue sources available to MOPAC. LFC's debt is set to increase by some £20m and like MOPAC is to be repaid from LFC's existing discretionary income sources. The GLA also is planning on cash flowing OPDC by up to £35m as short-term borrowing.

3.1.4. The GLA has taken out debt only where it is has a hypothecated source of income. This is because its discretionary revenues are very limited, leaving the GLA almost totally dependent on Government approval to undertake borrowing. For example, Crossrail debt is funded from the Business Rate Supplement (BRS) and the Mayoral Community Infrastructure Levy (MCIL), which required legislation. Similarly, the NLE debt is funded largely by a Government approved Enterprise Zone.

3.1.5. Therefore, with limited devolution the GLA is highly constrained in the investment it can make in London's infrastructure. This has meant that the GLA is unable to adequately respond to London's infrastructure needs. Lack of sufficient infrastructure is a primary cause of London's housing crisis and a key factor restricting London's social, economic and public fiscal growth.

3.1.6. However, within these constraints the GLA has used innovative financing mechanisms to ensure best value for money. Although the bulk of the GLA's debt is with the PWLB or through direct arrangements with Government Departments, the GLA, through its arrangements with Lloyds Bank has effectively issued bonds worth £0.8bn. This includes an award-winning index-linked bond of £0.2bn.

3.1.7. In addition, the GLA has financed half its borrowing for the NLE from the EIB. This effectively allowed the GLA to drawdown debt when required at sub-PWLB rates.

3.2. TfL

3.2.1. TfL's operations and capital investment programmes are funded through a mix of revenues, grants, business rates and borrowing. TfL's 2019/20 budget outlines that, of the £10.3bn funding requirement, £4.9bn will derive from passenger income, £1.2bn from other revenue sources, £3.6bn from GLA grants, and £0.9bn from new borrowing, working capital and cash reserves.

3.2.2. Transport infrastructure typically has the characteristics of high upfront costs with a long economic life. The combination of these characteristics often results in a mismatch of cashflow timing. Borrowing acts as a key enabler of investment in transport infrastructure, spreading the upfront cost and allowing repayment to be matched across the economic life of the infrastructure.

3.2.3. TfL has a current portfolio of £11bn of borrowing. TfL's borrowing has broadly been from three sources; one third through bond issuance; one third from other sources, predominantly the PWLB; and the remaining third via the EIB. At 31 March 2019 TfL had £11.2bn borrowing outstanding with an average cost of 3.6%, consisting of:

- Bonds - £3.3bn;
- PWLB - £3.3bn;
- EIB - £3.4bn;
- Export Development Canada (EDC) - £0.6bn;
- With the remaining £0.7bn from Commercial Papers on Money Markets for short term liquidity.

4. The role of the EIB (consultation questions 3, 4, 16)

4.1. The EIB has been an important partner for the GLA Group, making valued investment in London's transport infrastructure, small and medium sized enterprises (SMEs), low carbon infrastructure and local authority-led regeneration schemes.

4.2. In the transport sector, TfL's EIB loans comprise £3.4bn or approximately 30 per cent of TfL's direct borrowing, with a last scheduled repayment in March 2052. They have included financing for Crossrail, London Overground, London Underground and Docklands Light Railway extensions. The GLA is using a £480m EIB loan to finance just under half of the Northern Line Extension.

4.3. In addition to transport infrastructure, EIB has made investments to support the growth and development of SMEs in sectors that are important for boosting London's competitiveness. This was done through a £50m funding facility, agreed with a subsidiary in the GLA Group in January 2019, to provide loan and equity finance through the Greater London Investment Fund, to address finance gaps.

4.4. The EIB has also provided funding to help tackle the market failures that serve to dissuade investors from financing low carbon infrastructure such as energy efficiency and decentralised energy efficiency schemes in London. In 2018, the EIB signed a memorandum of understanding with the GLA, whereby it could provide funding of up to £100m to make co-investments, alongside the Mayor of London Energy Efficiency Fund (MEEF), in low carbon infrastructure projects. This was building on the £500m funding facility that was put in place in 2014 to invest alongside the GLA sponsored London Energy Efficiency Fund in local authority-led low carbon infrastructure and regeneration schemes.

4.5. The EIB's interest rates have been consistently very competitive and resulted in significant savings compared to other long-term financing options, such as the Public Works Loans Board (PWLB) and capital markets.

4.6. In addition to benefiting from the EIB's competitive interest rates through direct borrowing, TfL has benefited indirectly through some of its rolling stock leases. The EIB have lent to some of TfL's lessors at the same competitive rates that would have been offered to TfL, which has resulted in lower interest rates (and hence lower rentals) under these operating leases.

4.7. As well as competitive interest rates, the EIB facilities have allowed the GLA Group to agree the interest rate and start date of a loan well ahead of the required drawdown, an option that is not available when borrowing from the PWLB or the capital markets. For example, borrowing for Crossrail was agreed by up to 5 years in advance with multiple drawdowns spread over the construction period. This has been a key tool in the management of the GLA and TfL's interest rate risk and funding risk and has provided increased certainty on our financing costs over the planning period.

4.8. Under its current Business Plan, TfL intends to undertake further borrowing to support its capital investment programme. Limits on TfL's incremental borrowing have been agreed with the Department for Transport and HM Treasury until 2020/21. The latest funding letter, from March 2017, details TfL's incremental borrowing requirement of up to £1.1bn over 2019/20 and 2020/21. In addition, TfL has a requirement to refinance a portion of its existing borrowing.

4.9. Of the forecast £1.1bn of future borrowing up to 2020/21 the lack of access to EIB lending will impact negatively on TfL's direct and indirect borrowing costs. TfL's most recent EIB loan secured an interest rate that was 0.3% lower than the PWLB rate at the time. The saving is higher when taking into account the forward starting period of this loan. Although a reduction in the PWLB margin would not have any effect on existing PWLB borrowings as the rates are fixed, a hypothetical future loan of £1bn at typical EIB rates would yield savings of £3m p.a.

4.10. The GLA Group is exposed to interest rate risk on all future borrowing unless the interest rate is fixed. Without access to future EIB facilities, the Group has lost a cost-effective risk management tool, which has been used to reduce the risk of fluctuations in interest rates. Alternative options, only available to TfL, usually involving derivative transactions, are complex, can be costly and have the potential to create cash flow volatility.

4.11. The main benefits to the GLA Group of access to the EIB are highly competitive interest rates and the ability to agree a loan significantly in advance of the required drawdown, as described above.

4.12. The GLA Group would strongly support retaining access to the EIB on the same terms as European Union member states. To do that, the UK should ideally seek to remain a member of the EIB. However, if this is not possible it appears likely that UK borrowers will lose access to the benefits available through EIB funding. The effects could be mitigated if an equally competitive and flexible source of borrowing was available to appropriate entities post-Brexit.

4.13. Some of the impacted entities are local authorities that have access to the PWLB. Therefore, for a number of impacted entities the above mitigations could be facilitated through the PWLB. For example, the PWLB could offer loans at a discount to the concessionary rate of Gilts + 60bps most recently used for the Northern Line Extension project. A return to the PWLB rate of Gilts + 15bps typical a decade ago would allow the GLA Group to continue borrowing at competitive interest rates and ensure the delivery of strategic infrastructure projects that support growth in London and the United Kingdom without any additional cost to the Exchequer.

4.14. It would also be possible for the PWLB to offer forward starting loans, which would allow the GLA Group, and others with access to the PWLB, to fix the interest rate payable on borrowing ahead of the drawdown date. This would allow more certainty on future interest payments, provide a mechanism to reduce interest rate risk and enable more accurate budgeting. This issue is particularly important for the GLA, which does not have the capacity to hedge against future interest rate changes.

4.15. A UK equivalent to the EIB has been mooted. The GLA Group would support the creation of such an entity. However, we express concern about the length of time it would take to get such an entity from scratch up to the level of the EIB's capabilities. Adapting the PWLB would be logical but there is still a huge skills gap to overcome. HMT should learn lessons from other successful quasi-public lending organisations, such as Export Development Canada.

5. Alternative financing approaches

5.1. The GLA and TfL's portfolios of corporate borrowing are governed by the Local Government Prudential Borrowing Regime. In addition, incremental borrowing limits are set by the Mayor of London every year. As public sector bodies, the GLA and TfL's borrowing also counts towards Public Sector Net Debt ('PSND'), therefore any incremental borrowing counts towards HM Government's PSND.

5.2. Historically in circumstances where direct borrowing has been restricted, or alternative models have provided value for money, GLA Group members have adopted alternative structured finance approaches to delivering key infrastructure, including conventional procurement, leasing and through Private Finance Initiative / Public Private Partnership (PFI/PPP) structures. This investment has utilised a variety of sources of finance, including grant funding, direct borrowing, working capital, third party contributions and through structured private finance.

5.3. Project Finance (PFI / PPP):

5.3.1. Since it was founded, TfL has managed 13 PFI and PPP contracts with a combined value of over £18bn; of these 11 were inherited from legacy organisations with a further two let by TfL. LFC has one PFI contract for nine new fire stations. The initial value of the PFI contract was £51.5m. MOPAC has 2 PFI arrangements with a combined value of unitary charge due from 1 April 2018 until the end of the 25-year commitment of £374 million. These arrangements respectively provide for the provision of a) four police stations across south east London; and b) a firearms training facility and public order training facility, with both contracts including the provision of all necessary structures, office accommodation, support services and equipment.

5.3.2. PPP and PFI offered the benefits of private sector expertise, 'off balance sheet' finance and risk transfer. TfL, and predecessor organisations, let PPPs for individual projects, such as the A13, systems across the network projects, such as the LU Connect project, providing and maintaining new integrated radio communications network, line extensions including two Design, Build, Finance and Maintain (DBFM) PFI contracts for extensions to the Docklands Light Railway (DLR) in 2003 and 2005; as well as whole network PPPs, such as those let by London Underground.

5.3.3. Importantly many of the PFI agreements were entered into by the GLA Group's predecessor organisations, which had less access to cheaper direct borrowing sources. Even now, the PFI model of infrastructure finance can provide the benefit of achieving favourable budgetary treatment. This has allowed capital investment in the past where it might otherwise have been unavailable. However, the GLA Group's preference is that value for money rather than borrowing restrictions drives the use of alternative finance models.

5.4. Asset Leasing

5.4.1. Leasing as a means of infrastructure finance has historically offered a budgetary and accounting treatment benefit, in addition to the ability to match cashflows and transfer residual value risk. An 'Operating Lease' is considered 'off balance sheet' as well as 'off budget' under European System of Accounts (ESA 2010) rules.

5.4.2. TfL has used operating leasing for the procurement of assets such as rolling stock. Lease financing of rolling stock has historically been beneficial, and TfL has undertaken rolling stock leases worth approximately £1.6bn since 2007. A rolling stock operating lease, for example the sale and leaseback transaction for the Elizabeth Line fleet executed in March 2019, were traditionally relatively easy to structure as little residual value risk would be transferred to the lessor. This, combined with TfL's strong credit rating, has allowed TfL to achieve beneficial rates for rolling stock lease transactions.

5.4.3. Leasing has also been used across the wider GLA Group to finance property and equipment, including one finance lease by LFC for the Merton Control Centre which was inherited from DCLG in March 2011 - the current value of the lease is £18.4m.

5.4.4. The accounting standard, IAS17 which dictates how lease structures are accounted for, has recently been updated (IFRS 16). IFRS 16 removes the distinction between operating leases and finance leases for lessees, resulting in all leases being brought on balance sheet as a 'right to use'. For government bodies, however, the ESA 2010 rules have yet to be updated to include IFRS 16. Determination from HM Treasury and the Office of National Statistics on whether ESA 2010 will be adapted to include IFRS 16 will provide clarity on whether leasing remains a viable 'off budget' financing option.

5.5. The specific circumstances of each project have affected the GLA Group's experience with alternative financing. Relevant factors include the Group's ability to undertake prudential borrowing for investment, any funding settlements with HM Government, its investment programme, mayoral priorities and opportunities for efficient risk allocation.

5.6. Whilst there are recent examples of alternative financing being structured to achieve low effective interest rates, it is also clear that where off budget financing is utilised there is a premium to obtaining structured finance as compared to finance that can be raised 'on budget'.

6. Funding public infrastructure through growth (consultation questions 8, 9)

6.1. Funding rather than financing is the primary challenge for infrastructure in London.

6.2. The consultation document rightly mentions the importance of financing upfront capital costs in the context of consumer paid for schemes (para 3.2). In such instances, financing is predicated on infrastructure investments generating future revenues to pay back the upfront borrowing.

6.3. This model is equally applicable to taxpayer-funded schemes. Well-chosen infrastructure projects have potential to generate mid- to long-term tax uplifts larger than their costs; this can transform near-term funding insufficiencies into an issue of funding timing mismatch that can be resolved through appropriate use of financing. The GLA's own research is demonstrating that it should be possible to use future fiscal growth resulting from infrastructure investments as the basis for financing such investments, as is already the case in consumer-paid-for sectors.

6.4. The government acknowledged this concept in its agreement of the Enterprise Zone to support funding for the Northern Line Extension, which is based on future growth in business rates revenues caused by that investment. See Annex 1 for a more detailed description of the project funding model.

6.5. This model is replicable, especially if it can encompass a broader suite of taxes and thus provide support to projects not focused on catalysing commercial growth. The Bakerloo Line Extension (BLE) is a good test case for hypothecating stamp duty growth into the funding package.

6.6. However, the restriction of tax uplift mechanisms to narrowly defined project zones places an unnecessary constraint on investment. A more comprehensive devolution of fiscal powers that allows the GLA Group to leverage the impact of investments on the city as a whole would strengthen its ability to invest in London's growth. A city-wide, growth-based investment strategy could be best delivered if accompanied by devolution of the full suite of property taxes and a portion of income tax and VAT receipts to London's government, as recommended by the London Finance Commission.

6.7. Critically, such an approach would require the ability to accurately predict and measure projects' impact on the economy beyond the direct, first order effects covered under traditional cost-benefit analyses. The following subsection explains an approach to quantifying the whole-city fiscal impact of major infrastructure investments that the GLA Group has invested in partially to this end.

6.8. Estimating projects' fiscal impact

6.9. Major infrastructure investments have a substantial impact on city systems, with first order impacts on development and accessibility leading to knock-on impacts on population growth, jobs and incomes, tax revenues, energy use and so on. Traditional project assessment tools capture only a limited portion of this total impact.

6.10. The GLA has invested in a dynamic simulation model (the London Simulator) to estimate the whole-system effects of infrastructure investments.[1] The model is an additional tool that complements traditional methods such as cost-benefit analysis in assessing potential investments. The London Simulator independently replicates and forward simulates the city's performance on multiple

[1] For a detailed description of the London Simulator see Sections 4 and 5 in Greenwood Strategic Advisors & GLA (2018), *Mind the gap: funding and financing city investments in the 21st century*: https://www.greenwood-ag.com/files/MindTheGap-FullReport.pdf.

dimensions, as validated against more than 90 datasets. These simulations capture and quantify the knock-on impacts of infrastructure projects, including on HM Treasury tax take.

6.11. The GLA's simulation analyses of the proposed BLE investment, for instance, measure its long-term social, environmental and economic impacts across the entire city, and how these impacts are monetised in terms of new Government tax revenues and public cash flows. These analyses demonstrate that, thanks to London's growth dynamics, the net present value of these long-term cash flows can be expected to exceed investment costs for the BLE and many other public infrastructure projects. The self-funding capability of some public investments can change the perennial scarcity of public funding into a timing-of-funding issue, which may be appropriately resolved through infrastructure financing.

6.12. The methodology has been externally reviewed and found fit for purpose, although like any model its results need to be treated with caution. In particular, dynamic analyses do not yet account for potential positive and negative impacts from London investments in other parts of the country. Such impacts are important, for example, to assess whether fiscal benefits from Greater London investments are net additional to the UK economy. Evidence suggests that fiscal benefits to London from the simulated investments would be strongly net additional for the UK due to:

- London's openness to and connections with the international economy;
- Higher economic efficiencies in larger cities (due to agglomeration effects);
- London's large resulting net tax surplus for HMT;
- London supply chains that extend throughout the rest of the UK; and
- The observed strong correlation between growth in London and in the rest of the UK (which may suggest further dynamic positive influences beyond the capital that we have not yet modelled).

7. Infrastructure finance support for housing associations (consultation question 12)

7.1. Financial support that lowers housing associations' cost of borrowing can support housing delivery. The GLA therefore welcomes the new national £3bn Affordable Housing Guarantee Scheme as one of the interventions required to de-risk housing associations' borrowing. However, given the scheme's £3.2bn predecessor supported a total of 34,000 new affordable homes over four years, this new £3bn national scheme will not by itself support the scale of increase in affordable housing delivery required. The new scheme's attempts to lower providers' cost of borrowing could also be undermined if continued macroeconomic and political uncertainty leads to increasing housing association bond yields and spreads.

7.2. Ultimately, the primary support that housing associations require to deliver new affordable homes in London is increased levels of capital grant funding. The basic and inescapable economic logic of funding affordable homes in London is that doing so requires subsidy, and due to past and forecast cost inflation the level of subsidy per home needs to be greater in cash terms than even a decade ago.

7.3. The Housing Infrastructure Fund, the National Land Assembly Fund, the Small Sites Fund, and the Accelerated Construction Fund all support infrastructure-related interventions to support housing delivery in London. While this support is welcome, simultaneously bidding for/negotiating four separate funds to support housing delivery is unnecessarily cumbersome, particularly given the significant delays experienced to date between funding being announced, agreed, and paid. Looking forwards, the GLA needs a single, flexible pot of infrastructure-related funding, with devolved

decision-making of the same quality as our existing affordable housing grant powers. This will ensure the prompt allocation of funds to strategic sites across London, preventing administrative frictions from hindering project delivery.

7.4. A further issue on the relationship between infrastructure finance and housing relates to the reliance in the past by major public landowners including the MoD, MoJ and NHS upon PFI to finance asset relocation and/or revitalisation schemes. In addition to improving public services, these schemes often free up substantial land for house building and are integral to delivering upon these organisations' housing delivery targets nationwide and in London. With the ending of PF2 and capital funding in scarce supply, government must consider how it envisages paying for similar schemes in the future.

Annex 1. Funding the Northern Line Extension

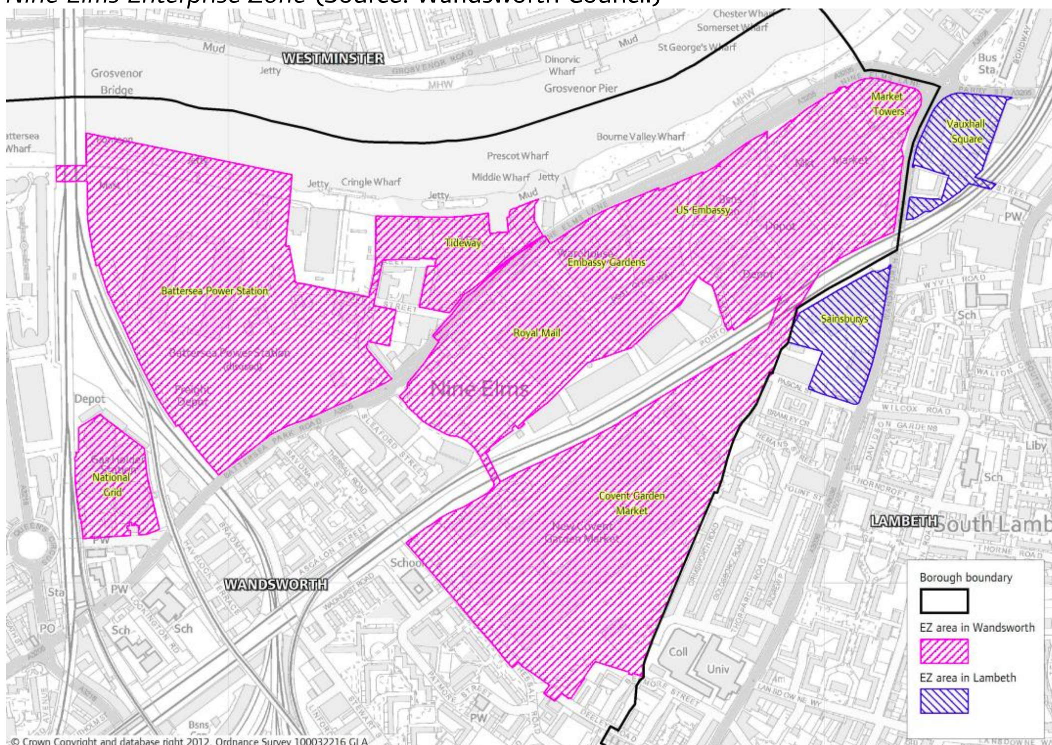
1. The Northern Line Extension (NLE) was the first application of tax increment financing (TIF) in the UK. In 2012 the Government approved £1bn in GLA borrowing for the scheme to add two additional stations servicing the Vauxhall, Nine Elms and Battersea development area. This borrowing would be funded through a combination of retained business rates uplift and developer contributions through the Community Infrastructure Levy and Section 106.

2. HMT accepted a new Enterprise Zone (EZ) that includes sites in both Lambeth and Wandsworth, including the Battersea Power Station redevelopment. From 1 April 2016, uplifts in business rates within this zone must be paid directly to the GLA. This agreement lasts 25 years with an option for a 5-year extension if necessary (a particularly important concession from the GLA's perspective).

3. The 'Economic and Business Case' (Volterra, Quod, SDG, 2013) found that the NLE represented very good value for money with a net present value of £4.47bn and a benefit cost ratio of 8.2:1. The study examined specific sites including Battersea Power Station and concluded that the NLE would lead to considerable additional development that would not go ahead without it. Given the length of time it had taken for the market to bring forward development at Battersea Power Station there was good evidence of market failure. The consultants took the view that 13% of the jobs created would be additional, i.e. would not otherwise have existed and would not simply be displaced from other areas.

4. The case study is also an example of how housing additionality could be demonstrated: many of the additional 20,000 homes were granted planning permission on condition that the NLE would be built. These forms of conditions could pave the way for future stamp duty TIF arrangements as they help guarantee the 'but for' test inherent to this type of funding structure.

Nine Elms Enterprise Zone (Source: Wandsworth Council)



Annex 2. GLA Group Budget 2019-20

Total gross revenue and capital expenditure	2018-19 £m	2019-20 £m	Change £m	Change %
Revenue:				
GLA: Mayor	391.7	708.1	316.4	81%
GLA: Assembly	7.8	8.0	0.2	3%
MOPAC	3,357.3	3,556.7	199.4	6%
LFC	437.8	450.3	12.5	3%
TfL	7,147.1	7,452.7	305.6	4%
LLDC	45.6	45.8	0.2	0%
OPDC	9.2	11.0	1.8	19%
Total revenue	**11,396.5**	**12,232.6**	**836.1**	**7%**
Capital:				
GLA: Mayor	1,528.6	2,419.0	890.4	58%
MOPAC	232.9	388.0	155.1	67%
LFC	14.0	40.0	26.0	186%
TfL	3,302.4	3,168.6	-133.8	-4%
LLDC	105.4	152.0	46.6	44%
OPDC	0.0	55.0	55.0	n/a
Total capital	**5,183.3**	**6,222.6**	**1,039.3**	**20%**
Grand total capital and revenue	**16,579.8**	**18,455.2**	**1,875.4**	**11%**

Note: Where there are payments by the GLA to functional bodies, such as by the GLA to TfL for Crossrail, expenditure is shown in both the GLA and the functional bodies gross expenditure. Therefore, although the GLA and each functional bodies gross expenditure is correct, there are double-counts in the total expenditure rows.

Source: The Greater London Authority Consolidated Budget and Component Budgets for 2019-20, p.5. https://www.london.gov.uk/sites/default/files/mayors-final-budget-2019-20.pdf