

Election 2015: A need for speed

By Katie Puckett | Investment/finance | 02-04-2015 | 11:45

Share this:



Transport infrastructure has always been vital for the UK economy, but major projects have been notoriously slow to reach fruition. EG looks at how current and future schemes might progress when the next government takes office

Last year marked an important milestone for Crossrail: its 40th birthday. London's new east-west link was first proposed in the 1974 London Rail Study, even if it only broke ground 35 years later, after decades of reports, failed legislation and repeated balking at the high costs of the scheme.

This is a tediously familiar tale in the recent history of the UK's transport infrastructure. There has been a consistent lack of political will to push through major projects, leaving strategically important schemes mired in the planning system or dropped abruptly with a change of government.

As a result, the UK lags behind other developed nations – ranked ninth overall in the World Economic Forum's Global Competitiveness Index, but only 27th for the quality of its transport network.

Transport is essential to the UK economy, and there is an urgent need for investment in roads, rail and airport capacity to ease congestion, support growth and accommodate 10m additional citizens by 2035.

It is a critical juncture for key projects including HS2, Crossrail 2, much-needed rail improvements in the North and airport expansion in the South-East, and if the UK is not to grind to a halt in 20 years' time, we have to start now. Political consensus and stability will be essential to delivering these aims – but unfortunately, we are a month away from the least predictable general election in decades.

It is hard to overstate the importance of transport to property. As Robin Woodbridge, head of land development at Prologis, points out: "Our buildings are only as good as the ability to get to and from them."

Improved connectivity can turn a remote site into a tantalising opportunity, or unlock the potential of vast tracts of subprime land.

Without investment in transport, there would be no King's Cross Central, Canary Wharf or Salford Quays; Crossrail is expected to add £5.5bn to the value of property along its route; and Hammerson shares jumped 3% on the budget announcement of funding for a new overground station at its Brent Cross scheme.

"If you gave anyone in property a list of infrastructure projects, they would probably say 'all of the above'," says Jon Neale, UK head of research at JLL. "Anything that improves the connectivity of a site increases its value."

Consensus needed

But transport also needs property. Without associated private-sector development, multi-billion-pound schemes such as Crossrail would not be financially viable. And everyone agrees that what property needs most is certainty, about what projects are happening and how they will be funded. Investors look 10, 15 or 25 years ahead, and they need a similarly long-term view from government.

"If these projects are going to happen, then everyone needs to know and they need to get on with it at the beginning of the parliamentary term," says Ghislaine Halpenny, assistant director for planning and regeneration at the British Property Federation.

King's Cross is a classic example of the need for a long-term plan backed up with action, says Robert Evans, partner at Argent. "King's Cross has benefited hugely from investment in transport infrastructure, but for many years the delays and uncertainties around that investment blighted the whole area," he says.

"We are seemingly able to make long-term spending commitments to defence or nuclear power, but there hasn't been the political will to do that for transport. The danger is that individual projects become political footballs when we need as much consensus as possible."

The good news is that there is now a consensus on the need for investment, if not on the finer details. "We have come a long way in the last few years," says Richard Threlfall, UK head of infrastructure, building and construction at KPMG. "All the main political parties recognise the relationship between infrastructure investment and economic growth and there is a substantial pipeline, at least in theory, of infrastructure projects across the country."

The greatest risk is not who wins the election, but whether it results in a functioning government. Threlfall adds: "The worry is that we will have a Belgium-like lack of government for months while various combinations of parties argue among themselves. We need stability and certainty to progress the development we need."

Even with a solid majority, successive governments have failed to deliver the infrastructure the UK needs. Investment in infrastructure is heavily politicised. Transport schemes require huge expenditure, but lack the populist appeal of health, education or defence. On a crowded island, they are always in someone's backyard. HS1 was the first new rail line since the Victorian era. Crossrail 2 was also mooted in the 1974 report but will not be delivered before 2030.

"This is about commitment," says Peter Dijkhuis, director of masterplanning at CBRE, who co-produced the economic impact assessment for Old Oak

THE FIRST 100 DAYS: FIVE TRANSPORT HEADLINES WE WANT TO SEE

Strategy

Investors need certainty: government must set a strategy for transport investment over the next 25-30 years, with committed funding for major schemes and improvements to the network.

Roads

Roads are the bread and butter of the industrial sector. Improvements must continue, and there should be greater use of smart motorways to keep trucks moving.

Rail

The property sector wants to see continued commitment to HS2, not only because of the potential for development but because it will free up capacity for an increase in rail freight on the West Coast mainline. There should be support for Crossrail 2 in the comprehensive spending review and plans for a faster TransNorth network need to be backed with spending commitments.

Airports

This summer, the Airports Commission is due to report on how additional airport capacity should be provided in the South East by 2030. It has narrowed down the options to expansion at Heathrow or Gatwick. Whatever the decision, the government needs to back it – the worst outcome would be further delay.

Devolution

Cities, particularly in the North, should have greater control over their transport budgets. Decision-making and funding should be devolved to regional or local bodies to bring the UK into line with other OECD countries and enable our cities to compete.

Common on the HS2 line. "It is problematic for our economy, and the perception of our economy, if projects take 30 years to get through the planning system and all the political processes that come with it. We have to speed it up.

"A new government might want to carry out some due diligence, but audits and commissions can take five years to report. That's five years of economic churn we're missing out on. We could be running trains on HS2 within five years."

Rhetoric is encouraging, but unless there is an agreed long-term strategy and committed funding, there is no guarantee that projects will happen.

The government likes to point to its National Infrastructure Plan, but this runs only to 2020 and two-thirds of the projects in the 2014 version are already under way. Anything further in the future is vague.

The verdict from the property sector is that it is a step in the right direction, but not nearly detailed enough. Barry Allen, development director at Savills, says: "It's a compilation of different projects that have been in the pipeline for some time or are being funded by the private sector. It leaves open the bigger question of the vision for our transport system for the next 20 years and how we're going to get there."

Strategy decisions

Labour's answer is a National Infrastructure Commission to set a 30-year strategy, as recommended by Sir John Armit. A draft bill has been published, which would become one of the first pieces of legislation for an incoming Labour government.

"The idea is to provide a greater degree of focus and discipline about how we plan infrastructure," says Robbie Owen, head of infrastructure planning at Pinsent Masons, who drafted the bill. "It's not about taking the politics out of infrastructure, it's trying to provide a greater degree of structure and certainty to encourage inward investment."

Within two years of the election, the commission would carry out a national infrastructure assessment, which would then be reflected in sector infrastructure plans produced by government departments within 18 months. "Within four years, we would have the architecture in place to provide the certainty against which investment decisions can be taken," says Owen.

The plan has been backed by the CBI, and Owen says it has cross-party support. "We haven't had any formal declarations from other parties, but opposition has been very muted," he says. "That underlines my belief that something along these lines will happen even if Labour doesn't get back in."

But not everyone is convinced. "The devil is in the detail, but it sounds like another layer of bureaucracy looking at stuff that others are already doing," says Savills' Allen.

CBRE's Dijkhuis thinks action is needed, rather than endless analysis. "The British psyche is one of undertaking research when all we need to do is get on with it," he says.

"There are enough case studies around the rest of the world to show that these things do work. Major infrastructure projects can cost tens of billions of pounds, but if they generate economic benefits that are worth ten times more, it is well worth it." This argument has not been made strongly enough for major infrastructure projects in the past, but there are signs that it is starting to happen. The HS2 Growth Taskforce was set up to advise on the development opportunities along the route, and on Crossrail 2, Bilfinger GVA has been appointed to advise Transport for London on the economic, housing and regeneration benefits the new line could bring.



Gerry Hughes, senior director at Bilfinger GVA, says: "This time, there will be much more focus from the outset on the regeneration and development potential that can be generated around stations and how we capture that. The key question is which areas will see a net impact on values and/or development potential, how much development could be achieved under various scenarios, and whether increased values could deliver development sooner across the whole line."

This didn't happen with HS1. The government has just set up an urban development corporation for the area around Ebbsfleet, but this could have happened 20 years ago, says

David Pendlebury, economic research officer at the Royal Town Planning Institute. "Nothing happened because infrastructure wasn't delivered in collaboration with the property side," he says. "We need politicians to show an awareness that infrastructure isn't just about increasing capacity, it is a tool to solve other problems."

Projects become more affordable when this wider value is recognised. The benefit-cost ratio used by the Department for Transport assumes that the costs would be borne by the commuter as the beneficiary of the service.

This stalled Crossrail for years because there was no way fares could be high enough to pay for it. The £15bn scheme was finally made possible by a levy on business rates along the route, taxing the increased value that businesses will reap.

Transport for London intends to continue this model for Crossrail 2, which is valued at £25bn. The route has just been safeguarded, and the next step will be to put a business case to the incoming government as part of the comprehensive spending review.

TfL board member Daniel Moylan, who is responsible for promoting the line, says it will be asking for £250m to develop the scheme. "If we don't get that level of support, it is likely that Crossrail 2 will be set back a full five years of the parliamentary cycle," he warns.

Compelling case

London needs Crossrail 2 to accommodate expected population growth from 8.6m to 10m by the early 2030s, and nearly 11.5m by 2050. The GLA's London Infrastructure Plan 2050 calls for £1.3tn of investment overall, most of it to be spent on transport and housing. A report by London First and KPMG estimated that this could boost London's growth by 1% a year, amounting to a total economic benefit of £1.9tn.

Last November, a PwC report estimated that London could pay for half of Crossrail 2 from a continuation of the business rates levy and the Olympics council tax supplement, a doubling of the mayoral community infrastructure levy, plus fare income and profits from over-site development. The eventual settlement would depend on negotiations with government.

"We wouldn't expect any party at this stage to say they are definitely going to build Crossrail 2," says TfL's Moylan. "What we want them to say is that Crossrail 2 has a very compelling case which could be refined into a thorough business case and, provided it passes that test, they will put money on the table." He aims to have that agreement in place by 2019, so it may well be the next government but one that is responsible for pressing the green button.

Those in other parts of the country can only dream of such riches. Think-tank IPPR North produced a regional breakdown of the total planned spend per

resident on transport infrastructure from 2014-15. It found that London is already set to receive £3,095 per resident, compared with £460 in the North West, £395 in Yorkshire and the Humber and less than £300 in the North East and West Midlands.

Part of the problem is that major schemes don't stack up outside the prosperous South. "When you look at something like HS2 as a corridor, all the economic benefits are eaten up in the first stages," says Harvey Emms, senior director at Nathaniel Lichfield & Partners and a member of the original HS2 working group. "There will always be more people moving from Manchester downwards, say, than downwards to Manchester. It needs to be considered as a wider network linking the core cities together."

One solution is more devolution for cities and regions to enable them to prioritise strategic projects and raise funding locally. The City Growth Commission, chaired by Jim O'Neill, found that the UK had the most centralised public finance system of any major OECD country. Sub-national taxation accounts for only 1.7% of GDP, compared with 5% in France and 16% in Sweden.

KPMG's Threlfall says: "Fiscal devolution is fundamental to the ability of major cities outside London to be able to invest in their own future. Their growth is throttled because they can only invest based on government handouts."

IPPR North called for a pan-northern body to oversee strategic transport planning, modelled on Transport for London, and Transport for the North was established by the Chancellor in October as part of his "northern powerhouse" initiative to connect cities across the north into a stronger economic base.

In the budget in March, George Osborne announced that Greater Manchester would be allowed to keep 100% of the growth in local business rates. This was followed a few days later by the Northern Transport Strategy, which included plans to connect the north to HS2 sooner than planned and develop a faster "TransNorth" rail network between northern cities, previously referred to as "HS3".

This was a welcome gesture, but it needs to be backed by actual funding and a greater sense of urgency, says Ed Cox, director of IPPR North. "The argument has been won that there has been insufficient investment in transport in the north of England," he says.

"What remains to be seen is any cash commitment. The politicians have to put their money where their mouths are. That's what everyone will be looking for during the election process or afterwards in the spending review."

It is the post-election spending review on which everything hinges. Will the new government push the button, or prevaricate further? There is only one answer that the property sector wants to hear.

EG asked the five main parties how they would improve the UK's infrastructure if they formed the next government

CONSERVATIVES

"Transport infrastructure will continue to be a key part of our long-term economic plan. Over this parliament we have invested record sums in upgrading existing railway and road networks as well as supporting major projects including HS2, Crossrail and the northern powerhouse. These programmes will improve journeys, create jobs and drive economic growth.

"This government can claim one of the best records of recent times with regards to the development and delivery of transport policy. We are making decisions that give certainty to planners and constructors. Our long-term plan for infrastructure is making our country stronger, more prosperous and a better place to live. The next parliament will see us continue to deliver ambitious programmes of investment and start work on HS2, the first new railway outside of London for 120 years. We will also provide local authorities with record investment to tackle the misery of potholes. Only the Conservative Party will deliver this much-needed transport infrastructure."

LABOUR

"Transport investment is a key priority for Labour. Britain will never be able to tackle the cost-of-living crisis and create new jobs unless we ensure that growth is evenly spread throughout the UK. We want to see not just a northern powerhouse, but midlands, eastern and southern powerhouses too. The next Labour government will take action to fix the broken markets in public transport, tackling rising transport costs and bringing decisions closer to communities. We will transfer responsibility for local transport decisions to elected and accountable transport authorities and partnerships.

"As a priority, we will review the rail franchising process. We will legislate to allow a public sector operator to challenge the train operators on a level playing field and ensure a strong passenger voice within a more publicly controlled railway. We will also create a high-level, cross-government Cyclist and Pedestrians' Advisory Board.

"Labour supports the long-term transport investment plans already set out for the next parliament. In addition, we will devolve £30bn from Whitehall budgets, including for transport infrastructure. Labour's British Investment Bank will be properly capitalised with powers to support businesses and infrastructure across all regions. We will establish an independent National Infrastructure Commission to set out the long-term infrastructure projects that the country needs. Labour will also seek to make best use of EU monies for infrastructure improvements."

LIBERAL DEMOCRATS

"The UK's transport system will collapse if we don't act positively to renew and restore it. That is what we are doing in government and will continue to do in any future government. The Lib Dems are committed to long-term infrastructure such as HS2 and we will produce 10-year rolling plans to provide investment certainty. We have committed to investing in new infrastructure after the deficit is paid down at the midway point of the next parliament.

"Investment in London must not come at the expense of other areas – the *Transport for the North* report is the latest step in efforts by the Lib Dems to rebalance the economy. We plan to electrify the vast majority of the rail network. Where we see a good business case, we will reopen smaller stations, and we will roll out smart ticketing to make journeys easier. In this coalition government, we have fought to breathe life into our tired, congested road networks, resulting in the biggest investment since the 1970s. Over £56bn will be spent on roads, rail and local transport between 2015 and 2020."

UK INDEPENDENCE PARTY

"Investment in roads has been sadly lacking over past decades and UKIP would like to see the balance redressed, with more investment in road maintenance. UKIP would concentrate on reducing congestion by adding road and rail capacity where appropriate. However, we would not commit to unfunded proposals before analysing the available finances. No additional funding can be allocated to transport infrastructure over and above that already committed until we have returned to a reduction in debt.



"There is a lack of investment in regional transport projects and we address this. We would scrap HS2 and improve connectivity through investment in existing rail – for example, completing the electrification of the entire network. We would introduce a Britdisk system to ensure that foreign HGVs contribute to Britain's road system. Where access to local businesses is improved, we would encourage private investment to pay for the infrastructure needed."

GREEN PARTY

"We want to see Britain move from an unsustainable, out-of-date, motor-vehicle-centric and "predict-and-provide" model to a more localised system. We would eliminate subsidies for air travel, cancel the road-building programme and invest instead in public transport, road maintenance and infrastructure to support walking and cycling. We would reduce rail fares and take the railways back into public ownership. We intend to deliver planned and hoped-for rail schemes across the UK on accelerated timescales. We would cancel HS2 and HS3 and invest in wider improvements to the rail network, and rebalance spending so that regions such as the South West get a fairer share."

Share this:

