Growth Commission
London Stansted Cambridge Corridor

EVIDENCE TO INFORM THE LONDON STANSTED CAMBRIDGE CORRIDOR GROWTH COMMISSION

PROCEEDINGS FROM INQUIRY 4: DELIVERING CHANGE

MAY 2016

INQUIRY 4

The LSCC Growth Commission aims to provide independent analysis and advice to raise the global economic potential of the London-Stansted-Cambridge Corridor, setting out a 30-year vision for transformational change.

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Growth Commission

London Stansted Cambridge Corridor

objective + evidence-based + independent

INTRODUCTION

THIS PAPER SETS OUT THE PROCEEDINGS FROM THE FOURTH INQUIRY EVENT

The fourth Growth Commission Inquiry Event met on 12 May 2016 to explore fresh thinking and solutions to address the main opportunities and challenges at the Corridor-level.

Aim of the event

The aim of the event was to fundamentally discuss and answer the following questions:

> Place-making for tech and knowledge-based economies;
> Delivering infrastructure: new financial tools;
> Delivering housing: fresh thinking and sustainable solutions; and
> Skills revolution: developing the local workforce.

This paper summarises the proceedings of the event and the views and emerging priorities of the Commissioners themselves.

The event

1. INTRODUCTION AND WELCOME

Cllr Guy Nicholson, Cabinet Member for Regeneration, London Borough of Hackney

2. INTRODUCTION TO THE LSCC GROWTH COMMISSION

Sir Harvey McGrath, Chair

3. PLACE-MAKING FOR TECH ECONOMIES: CREATING THE RIGHT ENVIRONMENT AND LOCATION FOR TECH AND KNOWLEDGE BASED INDUSTRIES

Dr. Tom Holbrook, Director, 5th Studio

4. DELIVERING INFRASTRUCTURE: NEW FINANCIAL TOOLS FOR FUNDING AND DELIVERING INFRASTRUCTURE

Jon Allen, Strategic Development Manager at Commercial Estates Group

Sarah Witney, Founding Director, Metro Dynamics

4. DELIVERING HOUSING: FRESH THINKING ON DELIVERING HOUSING AND SUSTAINABLE COMMUNITIES

Ed Clarke, Centre for Cities

5. SKILLS REVOLUTION: DEVELOPING THE LOCAL WORKFORCE

Dr. Stephen Rosevear, Director, Regeneris Consulting

PANEL DISCUSSION (ALL SPEAKERS)

Full presentation slides (where used) are available here.

SUMMARY OF PROCEEDINGS

This section summarises the main points of discussion from the presentations, panel discussions, and audience contribution.

Introduction to Hackney

Councillor Guy Nicholson, Cabinet Member for Regeneration, London Borough of Hackney briefly introduced Hackney and the main priorities for collaboration.

Shoreditch and Tech City is a rapidly growing community. As well as Amazon building a new office for 5,000 employees, next door we have the excavation site of the Elizabethan-era Curtain Theatre, the premier venue of Shakespeare's Company, the Lord Chamberlain's Men – which will become an important world heritage site and visitor attraction. Over the past 2 years, there have been an additional 2,000 hotel rooms built in Shoreditch, as the area has become an increasingly global destination for tech businesses and creativity.

And the London Borough of Hackney has promoted balanced and economic growth. As well as a 1-million square foot workspace for tech SMEs, we have provided between 700 and 800 new homes, of which 500 are affordable. Hackney's total GVA is forecast to increase from £7 billion now to £17 billion in 2030.

Yet, there are challenges facing the borough. The education system in the Borough is not sufficiently connected to tech, digital and creative sectors and the hospitality sectors. In the case of hospitality, we have attempted to address this with a voluntary hotel room levy to help contribute towards employment and skills initiatives, destination marketing and place-making. Hoteliers want to employ individuals with self-confidence that they can train themselves.

3. Place-making for tech economies: Creating the right environment and location for tech and knowledge based industries

Dr. Tom Holbrook, Director of 5th Studio

Dr. Tom Holbrook, Director of 5th Studio (an architectural practice) and an expert in place-making, discussed some of the challenges and issues for place-making in the Corridor. The main points of his speech and presentation are summarised here.

The success of Cambridge and Shoreditch cannot be taken for granted. Other cities and places around the world, such as Hamburg are tenacious in their leadership and commitment to capturing and growing knowledge-based industries. Cities such as Hamburg and Barcelona demonstrate a lot more extensive activity and longevity in their vision, strategies and delivery for this.

Some of the most significant challenges in terms of place-making are to both create space for innovation and foster community and cultural engagement at the same time. Cultural engagement is important as it helps to provide the spaces that a creative economy needs.

Charles Cotton recently wrote that the biggest issue facing the top 12 peer cities of Cambridge competing for graduate talent – is that talent wants to live well. And business investment follows talent.

A recent example is Cambridge Science Park, and the fact that there is very little that is attractive about it in terms of vibrancy, cultural offer, or even buying lunch. The spaces between the buildings are car parks, the only place to go to lunch is to grab a takeaway from a sandwich van. There are some very poor environments for creative businesses and talent.

Zoning of industries is now a useless concept, as cities need a 'rich mix' of activities rather than zoning separating out different types of land-use. If there is a new model of making a city work it is in cities such as Barcelona, with its high technology zone (22@), hyper-community (Diagonal Mar), the Universal Forum of Cultures 2004 and a new container port and logistics park - all constructed on coastal brownfield and reclaimed land.

We do have the necessary ecology of innovation in the Corridor – the finance, entrepreneurship and R&D – but we also need good transport infrastructure. We also need a feedback loop that helps to meet the aspirations of existing communities.

WE NEED SPATIAL ENTREPRENEURS

For our communities and places - we need people who have bigger aspirations and inventiveness. We need strong planning and strong place-identity. The Garden Cities and New Towns are an example that, although in need of updating, were very successful in their time and were copied world-wide.

Hamburg demanded that its public-private-partnerships for finance and delivery were innovative and creative. They incorporated innovation into the process.

We need to learn from our failures – we have created innovation incubators and sites in the past that just didn't work because they were in the wrong place, with no supporting locational characteristics, services or attractions.

4. Delivering infrastructure: New financial tools for funding and delivering infrastructure

Sarah Witney, Founding Director, Metro Dynamics

Sarah Witney, Founding Director, Metro Dynamics spoke about the potential from using institutional finance to help address the corridor's infrastructural and housing needs.

Currently, there is US $10 trillion invested in underperforming assets, with negative interest rates. There is $7 trillion of investment in government bonds with very low returns. Infrastructural investment could offer a better return.

Currently there are no high quality investment opportunities in infrastructure in the UK. Hinkley C nuclear power station is stalled. HS2 and Heathrow Airport are mired in politics. The M6 toll road has never made a profit.

Is there a chance that money could be invested at the local level? Local Government finance is very heavily regulated, and it is conservative and risk averse. The Public Works Loan Board (PWLB) is the main source of local government loan finance, with 1.5% annual interest rates, and 1.1% rates for projects with LEP backing. It is very hard to beat these rates, and makes it very difficult for banks to compete.

Most discussions with local authorities about development and infrastructure finance start and stop at the PWLB. Some local authorities use PWLB finance to lend to local housing developers, but local authorities pick up all the risk of this lending.

PWLB is effectively a creature of government macroeconomic policy – its lending policies can change due to politics, and they do. For example, borrowing rates increased by 15 points to 100 during the credit crunch.

Special purpose vehicles such as private finance initiatives have an awful reputation amongst local authorities. Public-private-partnerships have an uneven negotiating platform that tends to favour the private sector.

In other words, the current policy and funding environment mitigates against the effective use of private funds for local development and infrastructure projects.

Options for local finance vehicles

There are three emerging sources of funding:

I. MUNICIPAL BONDS – DIRECT ISSUANCE ON BEHALF OF A LOCAL AUTHORITY

A handful of local authorities have made steps to get the credit rating for potential bonds to be issued.

Warrington Borough Council raised at £150 million municipal bond. The bond has a coupon of 0.846% which increases annually with CPI subject to a maximum increase of 3% per annum, providing valuable protection against future increases in inflation.

£50 million were sold by TradeRisks Ltd, who structured and arranged the issue, and £100 million were retained by the Council to provide access to future funding, if required. The bond is the first direct issuance by an English local authority in ten years and the first sterling issue linked to CPI with a cap and floor. The first £50 million will be used for town centre infrastructure.

The Council is to use the bond proceeds to fund its capital programme. The proceeds will be spent on assets and infrastructure within the borough of Warrington, and the bulk is expected to be used on the Council's £100 million new Town Centre development in Bridge Street Warrington.

II. UK MUNICIPAL BONDS AGENCY (UKMBA)

The Local Government Association created the UK Municipal Bonds Agency (UKMBA) on behalf of the sector to develop cheaper sources of capital finance for local authorities by using the collective strength of local government itself, and as a clear signal to the wider world about UK local government ambitions and ability to find its own long-term solutions.

The shareholders in the agency, which will issue bonds to then on-lend funding to councils, were balanced across England across tiers and political control.

Councils starting with Cambridgeshire have taken the framework through their constitutional process and are now adopted within their treasury policies.

The aim is to get local authorities interest rates that are lower than the Public Works Loan Board, which lends to most authorities at 80 basis points over government gilts.

The UKMBA will reduce capital costs over the long term by:

- raising money on the capital markets through issuing bonds
- arranging lending or borrowing directly between local authorities

- sourcing funding from other third party sources such as banks, pension funds and insurance companies

It aims to lend to eligible councils at a lower rate than the PWLB or than if the councils were to issue their own bonds. This lower rate will be attained by:

- achieving a sovereign-like credit rating through a joint and several guarantee (see section 6 of the business case)
- issuing bonds in benchmark sizes of £250 million to £300 million
- sourcing capital at low interest rates from third parties, such as the European Investment Bank

A bond is being issued in Autumn 2016. UKMBA is also looking at inter-authority lending and at its role as a clearing house for European Investment Bank funding.

AGGREGATED BONDS

This involves the grouping together of similar types of investment across authorities.

LAND VALUE CATCHMENT / LAND VALUE TAXES

There is strong evidence that links infrastructural investment with economic growth. The construction of the Jubilee Line resulted in a £2.2 billion uplift in real estate values in the Southwark/ London Bridge area over three years.

But – how do we get our hands on the value of this uplift? In Southwark, the uplift was mostly in private residential property. It is all but impossible to capture this without some kind of long-term valuation, or revaluation for purposes such as council tax. Even for commercial business rates, market revaluation is infrequent.

CIL – COMMUNITY INFRASTRUCTURE LEVY

There is a very mixed picture concerning CIL. It is not going to solve infrastructure problems.

LOCAL BUSINESS RATES

This will be the principal way in which local authorities will translate infrastructure and economic development into revenue. There are two types of activities – 1) infrastructure; and 2) critical investments which turn around business and economic growth.

THE OPPORTUNITY TO DO SOMETHING TRANSFORMATIONAL IN THE LONDON STANSTED CAMBRIDGE CORRIDOR

There is a definite opportunity. CIL and public-private-partnerships are OK but limited. If you can't go to government, what is the answer? To access institutional finance in search of a return.

Why institutional investors are currently not interested in local funding vehicles:

- Not enough product, not enough funds or deal flow
- Can't get into it – to invest is complicated – e.g. the institutional environment of LEPs, LAs, combined authorities, transport authorities and bodies.
- The quality of municipal leadership is too poor

A RECOMMENDED ACTION: A HUGE CORRIDOR BOND

Pull together a list of all the important infrastructure projects and create a prospectus. Launch a place-based bond in three tranches: 1) retail investors – businesses and residents; 2) local authority pension funds; 3) institutional investors. Following these sequentially would allow you to build confidence to finally approach institutional investors.

How would you pay the coupon? Use a whole series of income and revenue streams, including business rates uplift.

Jon Allen, Strategic Development Manager at Commercial Estates Group

Commercial Estates Group has a wide range of development interests and activities and in all types of places, from the Aurora development in Glasgow to the new ARM HQ buildings in Cambridge (on Peterhouse College's Business Park). CEG are involved in commercial, residential and mixed developments also. For developments like the new Garden Suburb of Limebrook Way in Maldon, CEG are place-makers – they established the Community Land Trust, and have established the road and settlement layout.

In terms of CEG's involvement in local financial vehicles, the first point of contact has been for infrastructure funding with LEPs and their Local Growth Funds. This has helped to fund small infrastructure enabling works that have got developments moving. The next point of contact has been HCA funds for similar infrastructure gap finance. CEG developments have also benefited from pinch point funding. These types of gap finance have helped get developments underway more quickly.

There is also the Growth and Housing Fund, £100 million nationally administered by the Highways Agency, and Public Works Loan Board funding which has not been used very often in connection with CEG projects.

We are aware of TIF and bond finance, which was used for Kirkstall Forge in Leeds – a site acquired by CEG of 52 acres, heavily contaminated and crossed by the Leeds-Bradford Rail Line, but with no railway station. Historically there have been 250 dwellings. CEG got planning permission for 1,000 houses, 100,000 square feet of retail and 300,000 square feet of office space – all to be unlocked by a new railway station, which was torpedoed in the 2010 Comprehensive Spending Review. Planning consent was granted in 2013 along with the need for a £20 million funding commitment for a rail station and land remediation.

In 2014 the rail top plan would be scrapped. Time was running out. So West Yorkshire Combined Authority found £5m, CEG £5m, and Leeds City Council got a PWLB loan of £10m. So it got developed, and we have delivered the second largest long-term lease in the UK – 55,000 square feet to Zenith.

Now 300,000 square feet of office space is proving to be insufficient. We have a daytime population of 10,000 people and 4,000 residents versus 250 homes pre-development on a contaminated site.

Another example of advanced infrastructure commitments unlocking investment is in Chichester, Sussex, where the A27 upgrade was funded in the Autumn 2014 budget statement. This has led to CEG committing £200m to the development.

In the London-Stansted-Cambridge-Corridor, CEG hold the Twenfyfive25 site in Broxbourne. £30-50m to solve the A10 corridor issues would make a real difference to unlocking future development and accelerating housebuilding.

OBSERVATIONS ON GOVERNMENT FUNDING MECHANISMS

It is complex. We make it our business to understand the schemes and work with local partners, but to get pump-priming funding there are a lot of relationships, funding pots to negotiate. There is a need to simplify the funding of up-front infrastructure investment, and to gain more certainty for the development industry.

4. Delivering housing: fresh thinking on delivering housing and sustainable communities

Ed Clarke, Centre for Cities

Housebuilding has not matched population growth, particularly in the Greater South East and southern cities of England.

There is a crisis of housing supply in southern cities, particularly in the London Stansted Cambridge Corridor.

The North-South divide is in rates of job growth. The inverse is true for housing affordability.

Economic growth, and lack of housing affordability is pricing people out of job opportunities. Firms such as Deloittes have bought housing for their graduate workforce. For London Chamber of Commerce and London Partners, housing is the no. 1 priority.

The Chancellor vowed to build one-million homes by 2020, but where do they go?

THE REAL ISSUE IS LAND

Land typically comprises 1/3 of development costs, and is the most variable cost. Constraining land supply for housing pushes up the cost.

So how do we get more land? The only answer is green belt land. In places like London and Cambridge, there aren't enough brown field sites for development. Even if the finances stack up, such as on Curtain Road in Hackney, brownfield sites aren't easy and take time and investment to succeed. They often need public contributions to cost.

In Cambridge, there are a very small number of green belt sites. The city has the third least affordable housing in the UK. In Cambridge City Centre, the brownfield sites provide 6 months' supply of land only.

Fresh thinking, such as that provided by Cambridge Ahead, is really important to tackle big issues. We need to think at the city-region scale. The fact that we can build on green belt means that we can preserve city centres.

National policy has emphasised brownfield housing and permitted development rights allowing conversion from office use to residential.

KNOWLEDGE-INTENSIVE FIRMS LIKE CITY CENTRES

For knowledge-intensive firms, the LSC area does really well. These types of businesses like city centre locations. It is really important to preserve and enhance city centre office and business environments.

Science parks are perhaps the exception to the rule.

To get more housing built in Britain and preserve our city centres – we need to build on green belt land; and get more financial powers.

Financial vehicles such as the New Homes Bonus are a great idea for growth areas, relating particularly to the LSC area.

RECOMMENDATIONS FOR THE CORRIDOR

- Revise and review the green belt
- Don't forget the importance of commercial space and the need for city centre office spaces and locations

- More and better balanced financial incentives

5. Skills revolution: developing the local workforce

Dr. Stephen Rosevear, Director, Regeneris Consulting

To main elements to this presentation:

1) The need to understand the workforce in a new way
2) Benchmarking is different, depending on what you are benchmarking – industries, people, cities – all different

In terms of the Corridor -the Science and Industry Partnership Skills Strategy is relevant here – an industry-led strategy involving the major firms such as GSK and Amgen.

Some of the significant issues:

- The policy environment is rapidly changing and is unpredictable
- Skills are the oxygen of innovation – people spread innovation – buildings don't
- Stop using skills as a silo
- There is no laissez-faire alternative to skills, and public policy for skills
- Our competitors are providing effective public policy for skills
- We need to redefine what we mean by workforce

DEFINING WORKFORCE

There are three ways of defining workforce

I. Traditional: SIC/industry based – such as pharma

II. Expanding view – healthcare added to pharma

III. Universal life sciences workforce

- Firms are not interested in the SIC label
- Look at Institutional, materials, chemicals, pharma, healthcare, ICT components of life sciences
- A problem is that skills interventions are too siloed

SKILLS STRATEGY: SIP AND COGENT

There are some key enabling technologies that are the basis for these science, chemical and engineering industries:

- Informatics / big data
- Synthetic biology and biotechnology
- Advanced manufacturing
- Formulation technology
- Materials science

FUTURE SKILLS NEEDS ARE ABOUT: QUALITY

There are not enough qualified staff through the bio-economy in terms of life sciences – e.g. there is no bioinformatics course at degree level

Workforce also includes:

- Statistics and mathematics
- Practical and commercial
- Flexible and transportable – allow workers to move around – from big pharma to small firms
- Premium roles – that link functions and sectors - they are the conduits for innovation and growth

- Doers and thinkers

Brakes on future innovation are specific skills.

FUTURE DEMAND

There is demand for 180-260,000 new staff 2015 – 2025 in life sciences. 73,000 of these are technical level jobs.

Workforce ageing is significant – there is a large amount of replacement demand.

The market is not solving this.

THE COMPETITION

The USA has significant advantages over the UK:

- It has the biggest markets for life sciences, science and technology
- 7/10 of the world's top research universities
- Big successful firms
- Clusters
- State incentives
- K12 education (primary and secondary) is better than the UK for science
- Better links between employers and education
- Strong advocates for education and skills for science, technology and engineering
- States, businesses, colleges work together more closely – neo corporatism

Here in the UK, there is disconnect between FE, HE and employers.

WHAT CAN THE CORRIDOR EMULATE?

> Massbio
> LSCC – is the size and industry clustering that education and skills policy should operate at
> Emphasise technical and vocational education and not just HE
> Emphasise employer engagement – lobbying and pressure from employers is valuable
> Align money to skills delivery

WHAT ARE OTHER KEY ISSUES?

- Employers complain that everything changes annually – policy, structures, funding, incentives
- A stable policy environment is required

WHAT COULD THE CORRIDOR DO?

- Listen and communicate
- Don't reinvent – plug into existing good initiatives such as the national STEM ambassadors
- Understand the policy levers that can be used to achieve skills needs and aims
- Make things simpler for employers – don't crowd or complicate the space

Panel discussion (all speakers)

Q&A

Q: Is there a block for bond issues allocated by HMT for the Public Sector Borrowing Requirement?

A. 3 to 4 years ago there was a block, but the major change now is that the Municipal Bond Agency is now established, and the government have not stopped this happening – so looks like it is going to be viable. A pro-growth bond is going to get government approval.

Q. On skills, how can we ensure any policies or delivery works with employers and not just providers?

A. It is not easy, but selling the advantages and returns on investment of a different approach involving employers is the way to go. But be realistic about the time commitment required from employers – e.g. Smart Apprenticeships. GSK's recent quote in the skills strategy produced by the SIP was "the more scientists the better" – and if we are seen to be credible addressing that, we will get employer engagement.

Q. What about the classic conundrum of education being driven by individual demand – e.g. for provision of hairdressing courses?

A. The answer would be to give the money to employers to spend with education and training providers.

The more certainty you can bring into the system the better for employer engagement. For providers, you need a great evidence base on skills needs. The process of evidence collation and analysis brings people with you in itself as much as gives the answers.

Q. Are there disincentives to providing what employers want – e.g. with University courses?

A. Yes there are systematic disincentives. HM Treasury and DTI have a complex model for industrial partnerships, yet their economic /GVA model does not differentiate for different sectors.

Q. Isn't it difficult to deal with student choice? They do not go for science and technology courses. Apprenticeships for SMEs are also very expensive.

A. Models in the USA are more effective – good place to start looking for solutions.

Q. Aren't new funding vehicles just making things more complex? Wouldn't it be simpler to just tax and spend more?

A. It's a big issue for property developers to navigate the public finance system day-to-day. It's a complicated system that changes frequently.

Q. Will cooperation work with so many parties involved and the meetings don't even happen? The picture is one of a fragmented, demand-led response often trying to catch up with the market.

A. We have to ask what is the Corridor? And what is it for? Is it just for commuting, is it a potential transport authority, is its first priority quality of life above all else? Surely we need a linked spatial and economic strategy just like the competitors have: Barcelona, Hamburg, Route 128, Triangle, etc?

The idea of zero mobility and having no commuting is not realistic. With 2-worker households it is impossible.

The priority for Hackney is to deliver a community for everyone. We're now at the point where we have to build 18,000 homes by 2030 and more jobs – but we need a financial vehicle to do this. We cannot do this within current central and local government funding arrangements.

A fresh approach would help make investment easier and help to solve the barriers to institutional finance.

LOSS OF EMPLOYMENT SPACE TO RESIDENTIAL

At the moment, 22% of London's new house building is in ex-commercial land and property. It is incredible that this amount of employment land and premises has been lost. This shows the need to have much clearer policy on land use needs.

SPATIAL STRATEGIES GOING FORWARD

Some of the main places that will be transformed currently have very low density uses, such as in Harlow. There is an opportunity to create a rich mix of developments and uses, making land use denser but better configured.