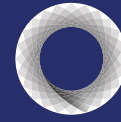




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Policy Report Series

Townscapes

Avoiding the pitfalls of private finance initiatives
and departmental budgets to fund the next wave of
sustainable new towns and urban extensions

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Executive summary

The new Labour government plans to build 1.5 million (m) homes in the next five years. This is part of a wider strategy to boost economic potential by strengthening connectivity across functional economic areas. However, the Chancellor has made it clear that any new wave of investment cannot negatively impact the public finances.

This report outlines how the government could use market sources of funding for major development projects through a plan-led approach that delivers the necessary public infrastructure upfront resulting in a significant increase in housing delivery. This plan-led approach is contrasted with the speculative housing model, which - as the Competition and Markets Authority (CMA) found in its 2024 housebuilding study¹ - cannot under reasonable assumptions sustain housebuilding at the level required to meet these desired housing targets.

The report references an illustrative large-scale urban extension along the Oxford-Milton Keynes- Cambridge corridor to highlight the scale of ambition public authorities need to have. This project has transportation and affordable housing costs in the region of £17 billion (bn) with identified sources of funding of £27bn - the majority of which are market sources including the sale of serviced plots to housebuilders with planning permission.

What makes this mechanism feasible now is its utilisation of the Levelling Up and Regeneration Act 2023 (LURA 2023), which enables the purchase of land at values close to existing use value by ignoring the prospect of planning permission for land compensation under certain circumstances. This ensures the public can capture the increase in land values arising from the granting of planning permission. Once the infrastructure is built and planning permission granted, plots can be sold to housebuilders with higher land values. This increase in land values was used to fund the wave of post-war new towns, as well as many new European urban extensions, and unlocks up to an additional £10bn per annum for incremental investment for large-scale integrated housing and transportation projects.

The UK government's track record on delivering both publicly and privately funded infrastructure, however, has not been particularly successful in recent years. The National Audit Office has provided a wealth of analysis on why projects have not been on time and on budget with a particular focus on value for money and governance.

Central to the improvement of the governance of large-scale projects is to ensure the entity responsible for delivery is also responsible for financing, with the necessary claims on future revenue streams for funding. This can be achieved through the use of development corporations. These development corporations also need to be linked to public bodies that cover an entire functional economic area and have scales similar to Mayoral Combined Authorities (MCAs) or counties. This approach has been widely used across European countries to deliver large-scale urban extensions.

The Office of National Statistics (ONS) is responsible for determining whether the debt issued by development corporations is dependent on market sources of revenue rather than future levels of taxation. A market-sourced classification therefore derisks projects given that they will neither impact government bond yields nor negatively affect the public finances. Hence, the government should actively support all market-sourced projects that can be funded in this way. This could include the current expansion of the City of Cambridge, and integrated housing and transport projects to replace the cancellation of HS2 between Birmingham and Manchester, as well as between Old Oak Common and Euston.

If the Labour government is serious about delivering large-scale infrastructure and housing based on a combination of public and private finance it should use mechanisms that have been proven - and not try to develop new complex public-private partnerships.

1. Competition and Markets Authority (2024) *Housebuilding Market Study*.

Background

In many city and county regions across the UK, economic potential is being held back by a lack of connectivity alongside a dearth of affordable housing. As a result, functional economic areas lack access to a single labour market and the necessary connectivity, thereby holding back firms in high-value-added sectors from expanding. This is one of the reasons behind the UK's ongoing poor productivity record. In addition, the lack of affordable housing has exacerbated the cost of living crisis with too many households having to rely on the private rented sector which has experienced significant increases in rent over the last two years.

To address this issue, the Labour government has pledged to build 1.5m homes, including a significant expansion of affordable homes. Labour has also committed to raising the rate of economic growth through a combination of public and private investment, as long as its fiscal rules are adhered to which require current spending to be balanced, while debt which includes capital spending must be falling as a percentage of GDP (Gross Domestic Product) by the fifth year. This means that investment needs to be able to definitively raise the rate of growth – something which many capital projects often fail to achieve.

If a Labour government is going to be successful in its ambition it will need to address the limitations of the speculative housebuilding model. This model has developed because the state has not prioritised the investment and delivery of large-scale infrastructure projects opening up new land for housing. Instead, developers have had to leverage off the existing infrastructure and take land through the planning process which takes time and carries risks for firms. Given these risks, housebuilders need to manage their build-out rates to ensure supply is consistent with local absorption rates

to prevent prices from falling, which would negatively impact profitability. This was noted in the Letwin Review² and in the more recent Competition and Markets Authority (CMA) report on competition in the housebuilding sector.³ The CMA report also raised some concerns about quality and the lack of innovation in the sector. In addition, this approach provides limited benefits for existing residents given that the existing infrastructure is being utilised by more people, which tends to increase the rate of objections to development.

One alternative to the current speculative housebuilding model is to introduce a plan-led approach which integrates transportation and housing at scale. This requires upfront investment in infrastructure enabling land with planning permission to be sold on to multiple housebuilders to build out the scheme in accordance with the plan. But if this approach to large-scale investment is going to be successful, appropriate governance arrangements must also be put in place. This is particularly important given the UK's failure to effectively deliver infrastructure projects on time and on budget such as in Crossrail and HS2. Poor delivery across these projects has been documented in detail by the National Audit Office (NAO) to ensure these governance failures are taken into account by future administrations.

This report references an illustrative large-scale urban extension located along the Oxford to Cambridge corridor using publicly available data to support the argument. The report's focus will be on how these kinds of large-scale sustainable developments should be delivered and financed efficiently and effectively.

2. Letwin, O. (2018) Independent review of build-out.

3. Competition and Markets Authority (2024) *Housebuilding Market Study*.

1. Illustrative large-scale urban extension along the Oxford to Cambridge corridor

The National Infrastructure Commission (NIC) in its 2017 final report on the Oxford – Milton Keynes – Cambridge corridor highlighted that while the region contains some of the UK's most productive firms, without sufficiently increasing the housing supply – enabling the region to attract and retain the talent and skills it needs - it will fall behind international competitors.⁴ Such a decline in economic activity in this region would result in a negative productivity shock further lowering living standards across the UK.

The various reports commissioned by the NIC for the project provide a plethora of public data to help understand what infrastructure would need to be delivered upfront to accelerate the rate of housebuilding. In addition, estimates of how much the supply of housing could increase as a result of this new infrastructure are available

Critically, the approach to investing in the infrastructure upfront moves the delivery of housing away from the speculative housebuilding system which by definition constrains the way supply can potentially ramp as highlighted by the recent CMA report.⁵ The speculative housebuilding model would be replaced by a plan-led model where housebuilders acquire plots with planning permission and build out sections of the scheme in keeping with the plan. Such an approach would also facilitate greater competition given that housebuilders would no longer need to utilise their balance sheets to manage planning risk over extended periods of time, and hence would encourage more SMEs (small and medium-sized enterprises) into the market.

While this illustrative large-scale urban extension is backed up by actual data, it is important to note that all large-scale developments are unique. Infrastructure requirements to unlock land for housing will be project-specific and therefore cannot be replicated for other projects. However, the method used to deliver and finance such projects can, which is the focus of this report

Key infrastructure requirements, housing additionality and economic benefits

An analysis of the NIC published material indicated a significant amount of transportation infrastructure investment would be required to enable the housing supply to increase.⁶ This investment includes but is not limited to the following types of projects:

- Rapid transit bus system
- Tram system
- New train stations
- Cycling routes
- Road junction improvements
- Rail improvements
- New railway lines
- New roads

An assessment of these projects⁷ updated to 2023 prices indicates that the delivery of this infrastructure would cost £9.9bn. However, the infrastructure requirements for large-scale urban extensions are more than just transportation. Prior analysis suggests that just under two-thirds of large-scale urban extension infrastructure is related to transportation,⁸ with just over a third required for education, health, utilities, open space and site preparation. This indicates a higher level of costs to deliver the necessary comprehensive infrastructure for sustainable new towns and urban extensions.

4. National Infrastructure Commission (2017) *Partnering for Prosperity*.

5. Competition and Markets Authority (2024) *Housebuilding Market Study*.

6. Aubrey, T. (2017) *Funding the Infrastructure and Affordable Housing for the East West Corridor*. Centre for Progressive Capitalism Available at: https://centreforprogressivecapitalism-archive.net/wp-content/uploads/2017/10/Financing_East_West_Online.pdf

7. Aubrey, T. (2017) *Funding the Infrastructure and Affordable Housing for the East West Corridor*. Centre for Progressive Capitalism. Available at: https://centreforprogressivecapitalism-archive.net/wp-content/uploads/2017/10/Financing_East_West_Online.pdf

8. Aubrey, T. (2016) *Bridging the Infrastructure Gap*. Centre for Progressive Capitalism.

Available at: <https://centreforprogressivecapitalism-archive.net/wp-content/uploads/2016/06/Bridging-the-infrastructure-gap-June-2016.pdf>

Table 1: Infrastructure costs by type

Type of infrastructure	Estimated cost
Transportation	£9.9bn
Education	£1.9bn
Health	£1.3bn
Utilities	£1.3bn
Open space	£1.1bn
Site preparation	£0.3bn
Total	£15.7bn

Source: National Infrastructure Commission, Centre for Progressive Capitalism

In addition, annual programme management costs can be expected to be around £40m per annum, which is roughly £1.2bn over the life of the project.⁹

Projects of this scale integrating housing and transportation have not been attempted since the last new towns were built, with the exception of the London Olympics (2012). But this is the scale that regional and national authorities need to be planning at to ensure growth across the UK is not held back. Current infrastructure projects for new housing would all fall into the sub-scale category, which has been one of the constraining factors of UK growth.

The investment of £15.7bn in infrastructure along the corridor will, however, permit the rate of housebuilding to double from around 15,000 units per annum to 30,000 units per annum once the infrastructure has been put in place.¹⁰

Given the high cost of housing compared to income for many households, such large-scale projects should also be expected to deliver a significant amount of affordable housing units. Based on local authority affordable housing

policies within the corridor, prior analysis proposed that there should be an affordable housing subsidy on 36% of the units. The assumptions for the housing subsidy include a mix of 50% social rent, 25% fair rent and 25% shared ownership. This subsidy for affordable housing along the corridor would cost an additional £4.25bn.¹¹ Thus the overall cost for the urban extension is going to be in the region of £20bn.

This £20bn investment is expected to result in an additional 1.1m jobs in high-value sectors, thereby boosting productivity growth.¹² A functional economic area with excellent connectivity facilitates complementary sectoral specialities, enabling firms to tap into a wider pool of skilled labour facilitated by better transport links.¹³

Major improvements to local infrastructure also bring significant benefits for existing residents, who tend to be ignored in the development process. Indeed, ensuring local populations support these developments because they benefit from improved public services must play a central role in the way the UK builds out its physical infrastructure.

The challenge of delivering the upfront infrastructure

The key to success in delivering the economic benefits of large-scale integrated housing and transportation developments is to invest in the infrastructure upfront. Without the infrastructure being in place, additional houses will not get built, firms will not invest as much, and local populations are more likely to oppose development. This is why the UK's piecemeal approach to development has been lacklustre in terms of its ability to scale up functional economic areas and increase economic output.

The challenge for policymakers is therefore how to fund and deliver infrastructure efficiently and effectively. The UK's record on delivering new infrastructure, however, has been poor. Furthermore, the UK has a much lower

9. Based on published figures of the London Olympic Delivery Authority. Development Corporation costs are estimated for 30 years given the ramping up and down process in headcount which tails off significantly towards the end of a project.

10. National Infrastructure Commission (2017) *Partnering for Prosperity: A new deal for the Cambridge-Milton Keynes-Oxford Arc*.

11. While NIC estimated that potentially up to an additional 1 million new houses could be built, the analysis for land value capture was undertaken for 150,000 new units which were linked to specific promotional sites and transport projects.

12. National Infrastructure Commission (2017) *Partnering for Prosperity: A new deal for the Cambridge-Milton Keynes-Oxford Arc*.

13. SQW and Cambridge Econometrics (2016) *Final report for the National Infrastructure Commission*. London: National Infrastructure Commission.

percentage of infrastructure stock as a percentage of GDP compared to other European countries – at just 57% compared to a benchmark of 70%.¹⁴ If the UK is to turn this situation around it will need to address the key factors that explain this poor delivery including the governance structure of projects, the relative centralisation of the country, and the way it thinks about fiscal policy in terms of financing and debt management. Hence the government will need to:

- Develop a new set of governance arrangements that ensure more accurate cost assessments and management of delivery
- Act in a more devolved way with projects being driven locally and supported centrally.
- Identify market sources of funding for infrastructure projects alongside taxation to increase investment without negatively impacting bond yields

Governance: One of the central problems with current public sector projects is the poor level of governance. It is plausible that when public officials on projects are involved in estimating costs, there is an insufficient focus on the details, risks and contingencies. Furthermore, public projects also run the risk that any overspend will end up being paid for by the department due to sunk costs, thereby reducing the incentives to go into sufficient detail. This is one reason why using private finance initiatives (PFI) has resulted in better cost estimates as getting this right drives profitability.

Gareth Davies, the head of the NAO, gave a speech in Parliament in January 2024 on this topic. He noted that:

“Our work on HS2 and the New Hospital Programme suggests that for the biggest projects, Whitehall has a governance problem. In both cases, decisions to proceed were not accompanied by sufficiently robust and realistic assessments of affordability. So, I think a new approach to the governance of the small number of genuine mega projects is needed, reflecting the scale and nature of the risks involved. This is likely to require governance expertise from outside the relevant department. This

would increase the chance of making better go/no-go decisions and effectively holding the project to account for cost control and delivery.”¹⁵

For example, Crossrail was delayed by three years due to poor governance resulting in a 28% nominal cost increase to build the railway from the 2010 budget of £14.8 billion. According to the National Audit Office (NAO), Crossrail Ltd had no realistic plan to complete the programme and when the programme repeatedly missed milestones, management continued to believe it was possible to meet the original opening date. The NAO found that there was not a sufficiently detailed delivery plan against which to track progress and it did not adequately reflect interdependencies across the programme.¹⁶ This is rather basic project management failure, albeit of a complex project.

The governance surrounding HS2 was also a major failure when in March 2019, HS2 Ltd formally advised the Department for Transport that it would not be able to deliver Phase One of the programme on time or within available funding. The Department and HS2 Ltd underestimated the cost impact of the changes to the railway’s design and construction introduced by the hybrid bill.¹⁷ The overall HS2 project was expected to cost £37bn in 2009 prices, but currently, phase 1 from London to Birmingham will cost between £49bn and £57bn in 2019 prices.

In conclusion, it appears that for governance to work effectively those who work on estimating the costs need to have some “skin in the game”.

Devolution: One challenge with the UK’s system of local government is that local authorities are not at sufficient scale to manage large projects that the built environment and the economy require. First, individual local authorities do not cover a functional economic area and hence planning is incoherent across the larger functional economic area. Second, their lack of scale means they have insufficient specialisation of labour to work on large-scale projects. Third, they have limited fiscal powers to stand

14. McKinsey Global Institute (2013) *Infrastructure productivity: How to save \$1 trillion a year*.

15. Davies, G. (2024) *Improving productivity could release tens of billions for government priorities*.

16. National Audit Office (2021) *Crossrail – a progress update*.

17. National Audit Office (2020) *High Speed Two: A progress update*.

behind such projects. Hence, it should not be surprising that central government has not wanted to enable local authorities to embark upon these kinds of projects. Moreover, the recent bankruptcy of several local authorities following failed investments in commercial property including Woking, Thurrock and Croydon highlights significant governance concerns and a lack of financial acumen within some local authorities. Although some devolution has taken place to combined authorities and to the Mayor of London, the process has been ad hoc.

This lack of scale is also why large-scale infrastructure projects managed by central government have tended to be located in London, increasing regional inequality. In recent decades, London has benefitted from the Jubilee line extension, Crossrail, the Olympic Park, as well as HS1 connecting Paris and Brussels to London supporting the regeneration of the Kings Cross / St Pancras area. According to IPPR,¹⁸ London receives £3,636 per capita of transport investment compared to just £519 for the North East.

To address this issue, the prior Conservative administration set out a bold devolution plan to create combined authorities that cover functional economic areas in the Levelling-up and Regeneration Act 2023 (LURA 2023). The devolution framework provides a path for city regions and counties to take back control of their economies to create a single institution across a functional economic area run by a directly elected mayor. Such a body would combine the development and execution of several policy areas including business support and skills, as well as infrastructure, housing and transport. All devolution deals are to be guided by four requirements including effective leadership, sensible geography, flexibility and accountability. While it is unlikely that devolution will be delivered quickly, at least there is now a framework as to what is on offer and how it can be attained, which is a significant step forward.

The prior government's focus on reforming the institutional framework of local government before tackling the more complex issue of fiscal devolution is logical. However, LURA 2023 has already provided a significant boost to fiscal devolution by making amendments to the 1961 Land Compensation Act. This permits local authorities to request a direction from the Secretary of State to disapply hope value by ignoring prospective planning permission for land compensation payments. Bottom-up estimates using individual local authority data indicate that this could result in more than an additional £10bn in investment a year.¹⁹

Identify market sources for funding infrastructure

investment: Given the current levels of UK debt, the UK's infrastructure deficit could not be financed through an additional £600bn²⁰ of government borrowing based on the assumption that future taxation would rise to fund this additional borrowing - even if the governance and centralisation issues were fixed. Such a significant increase in borrowing would result in the bond market demanding significantly higher yields, thereby pushing up government borrowing costs. The Truss/Kwarteng mini-budget of September 2022 with its £45bn of unfunded tax cuts resulted in 10-year yields jumping by one percentage point in a week, along with the decline in the value of sterling. Although the business case for many infrastructure projects may appear robust with a boost to GDP and hence higher future tax returns, the delivery of those incremental tax returns is a long way off – even if the project remained on track and on budget. When these assumptions are scaled up across multiple projects, the risks increase dramatically which is why the bond market would not react positively to such an approach. This is why identifying market sources of funding is so critical, and the Treasury's role is so central in pushing back on projects that would cause bond yields to widen.

Since the early 1990s, successive UK governments have used Private Finance Initiatives (PFI) to help crowd in private capital for certain infrastructure projects.

18. IPPR (2019) *Revealed: North set to receive £2,389 less per person than London on transport*.

Available at: <https://www.ippr.org/media-office/revealed-north-set-to-receive-2-389-less-per-person-than-london-on-transport>

19. Aubrey, T. (2018) *Gathering the windfall: how changing land law can unlock England's housing supply potential*. Centre for Progressive Policy.

Available at: <https://www.progressivepolicy.net/publications/gathering-the-windfall-how-changing-land-law-can-unlock-englands-housing-supply-potential>

20. The UK faces a £615bn funding challenge to meet requirements for energy, transport and housing infrastructure by 2030 – having secured a little over half of the £1.3tr needed.

Despite this attempt, more than 90% of infrastructure investment remains driven by general public expenditure.²¹ This suggests that PFI initiatives and its more recent reincarnation, Private Finance 2 (PF2) from 2012, are unlikely to be able to scale much further. In addition to this lack of scaling, many PFI projects have been heavily criticised for not providing value for money.

The main difference between PFI contracts and general government expenditure is that while in both cases the private sector builds the asset, for a PFI project a private company is formed usually in the form of a special purpose vehicle (SPV) and raises debt and equity from investors to pay for construction. The idea is therefore to transfer the risk of the construction to the private sector and, once the asset has been delivered, the company receives payment from the relevant government department for the use of the asset over a period of say 30 years. These payments from the relevant government department will cover shareholder dividends, debt and interest repayments, as well as charges to maintain the asset.

One of the main reasons for using PFI projects is that from a fiscal perspective, these projects are initially considered off-balance sheet items and are instead treated as contingent liabilities. For any chancellor wishing to keep the public finances within a certain fiscal framework in the short run, the immediate benefits are obvious. However, once the asset is delivered, the regular charges that are paid back to the private company are included within agreed departmental spending budgets which have to be financed through taxation and debt.

In the words of the Office for Budget Responsibility (OBR), creating a “fiscal illusion” was not the main goal of using PFI. It was initially thought that PFI contracts would bring greater certainty over construction costs, improve the operational efficiency of operating the asset, and thereby extend the life of such assets. While PFI projects have indeed brought increased certainty on costs, this appears to have been largely due to the fact that many PFI projects charge higher prices for construction. In essence,

the governance arrangements have resulted in a more thorough analysis given that any miscalculation would impact the company’s profitability. Alongside these higher but more certain costs, the NAO analysis on PFI hospitals found no evidence of operational efficiency on managing the asset.²² In essence, the benefits of this approach are not as advantageous as previously thought. Indeed, PFI contracts have two specific disadvantages – particularly for large-scale projects.

First, they have a significantly higher cost of finance of between 2% to 3.75% above the cost of UK gilts.²³ This higher cost of financing had been deemed acceptable because it was assumed that PFI projects should result in cost savings in construction and improved operation of the asset once constructed. Although the construction risk is transferred, there is no evidence that overall construction costs are lower under PFI as noted above. In essence, there is little justification that this approach to delivery is going to deliver better value for money than using a public sector approach.

Second, costs are even higher due to the need to “guarantee” a level of profit to the company that raises the finance, and subsequently contracts out construction. The recent equity sale in the M25 PFI contract showed that equity holders have realised returns of 31% per annum over an eight-year period. These higher levels of costs are one reason why most government departments would be interested in buying out their PFI deals, although this would require upfront funding. Transport for London was able to make significant cost savings of nearly £500m by terminating three deals.²⁴

While the government decided to take on a small equity share in projects to increase transparency, it is unclear why the public sector is willing to take on the risk of equity rather than the lower risk of debt. As noted by the NAO, if the government is confident that it will receive a return from its equity investment this would imply that it believes the debt holders have a very low-risk investment.²⁵ While PFI contracts would initially keep debt off the balance

21. National Audit Office (2018) *PFI and PF2*.

22. National Audit Office (2018) *PFI and PF2*.

23. National Audit Office (2018) *PFI and PF2*.

24. National Audit Office (2018) *PFI and PF2*.

25. National Audit Office (2018) *PFI and PF2*.

sheet, there is little evidence that they offer good value for money. However, they may still be suitable for smaller and less complex projects with stable, sustainable cash flows. On the plus side, it is important to note that their governance arrangements have brought greater certainty on expected costs.

Over the last few months, a number of proposals have been put forward that look to revive the idea of public-private partnerships including The Rail and Urban Transport Review (2024)²⁶ led by Jürgen Maier and Rebuilding the Nation 03 by Matt Bevington (2024).²⁷

The Rail and Urban Transport Review makes several important contributions concerning the importance of strategic planning. With regards to funding, it recommends a blend of contributions by both the public and private sectors – with private entities setting up a company using the Special Purpose Vehicle (SPV) structure financed by debt and equity. However, it is unclear how this is going to resolve the numerous issues raised by the NAO in terms of cost and value for money. Moreover, there is no recognition of the need for a single project that integrates transport with housing – but rather standalone transport projects that, in turn, might help support the built environment.

Rebuilding the Nation 03 makes some important observations on the challenges of funding projects through departmental budgets. However, the proposed public-private partnership is still very much in the mould of PFI where the basic building blocks include, “a long-term contract that requires the public sector to commit in advance to a broad payment level. Investors require this certainty over revenue in order to take on the risks associated with such long-term projects and help to deliver better value for money outcomes.”²⁸

The re-emergence of PFI proposals has also been accompanied by concerns raised by former and current public officials. In a recent interview Lord O'Donnell, a

former Cabinet Secretary, said that “the Government must not ‘play accounting games’ and use private providers purely to remove immediate spending from Government balance sheets.”²⁹ In addition, Gareth Davies, the head of the NAO has also warned that some, “PFI schemes have left public service managers with a lack of operational flexibility or high costs of change.”³⁰

In summary, the lessons that have been learned from the history of funding projects include:

1. PFI is costly due to the need to “guarantee” profits and to pay for the significantly higher cost of financing
2. Central government financing is problematic because there is inadequate governance with no direct link between those budgeting for the project and its delivery.
3. Local authorities do not have sufficient scale to take responsibility due to skills capability, governance arrangements and lack of fiscal devolution

Potential sources of funding

The issues described above have been clear to many observers across the infrastructure industry for some time. Indeed, when the NIC introduced its concept for the Oxford to Cambridge Corridor it realised that the funding and financing mechanisms were going to be a key success factor for these kinds of large-scale projects. One of the commissioned reports assessed potential funding sources that large-scale infrastructure projects could tap into to help finance the project. Significant additional investment will be needed to help pay for the required infrastructure above and beyond current general public expenditure.³¹

The approach to identifying potential sources of funding before working out what is the most effective financing arrangement is a sensible one. Key potential sources of funding that were documented for the National Infrastructure Commission (NIC) included section 106

26. The Rail and Urban Transport Review (2024) An Assessment and ambition for a new government.

Available at: https://www.urbantransportgroup.org/system/files/general-docs/Rail%20and%20urban%20government_FINAL.pdf

27. Bevington, M (2024) Rebuilding the Nation 03. Available at Rebuilding the Nation 03: Infrastructure Investment Partnerships - Future Governance Forum

28. Bevington, M (2024) Rebuilding the Nation 03.

29. Inews.co.uk (2nd September 2024) Starmer warned over private finance plan by Blair's ex-cabinet chief.

Available at: Starmer warned over private finance plan by Blair's ex-cabinet chief (inews.co.uk)

30. Inews.co.uk (3rd September 2024) Here's how to make public money work harder

Available at: <https://inews.co.uk/news/politics/rachel-reeves-warned-pfi-plan-schools-hospitals-3258734>

31. Metro Dynamics (2017) *Finance and Investment Workstream*.

agreements and the Community Infrastructure Levy (CIL) that claw back some of the increase arising from the jump in land values from the award of planning permission. In addition, mechanisms including business rates and a business rates supplement were identified to capture the increases in commercial land values due to economic growth.

Although section 106 has been the most successful mechanism in capturing planning gain in recent years, it tends to be localised and largely focused on delivering affordable housing. Where CIL has been applied, it has tended to result in small amounts raised for infrastructure in relation to the overall project: CIL funded just 4% of Crossrail. Although Section 106 and CIL have been the most effective methods for capturing planning gain in recent years, prior analysis indicates they capture only about 27% of the increase in land value from planning permission.³² This leaves a significant portion of the gain as excess profit.

Business rates retention and business rates supplements which were used for Crossrail are an effective mechanism for delivering revenues. Indeed, modelling for the NIC indicated that this would be a significant source of funding.

Additional sources of funding such as the future revenues from affordable housing when the affordable housing subsidy is paid for upfront would be ringfenced for the project, and revenues from transport services can also be used as a source of funding. Government grants for specific parts of the project such as land remediation costs to ensure project delivery will also play an important role. Additional capital grants would also be required for new education and healthcare services in new urban extensions. These services are also critical to ensure that existing residents see benefits from new developments.

The major missing component from the sources of funding, however, is the ability for a public authority to acquire land close to its use value, and once the infrastructure has been implemented and planning permission granted, serviced plots can be sold on to multiple housebuilders to deliver the housing in accordance with the plan. This was the model pioneered by the garden cities and new towns model across the United Kingdom (UK) – which was subsequently copied across continental Europe.

A number of continental European developments have relied on the model of using the sales of plots with planning permission to pay for the upfront infrastructure including the Vauban and Rieselfeld developments in Freiburg.³³ The same approach was used by Vathorst which is an extension of Amersfoort in the Netherlands.³⁴ Both of these projects did receive some public money for schools in the case of Freiburg and for land remediation and access for Vathorst.

Prior analysis of using land value capture for the Oxford to Cambridge corridor indicates it is by far the most important source of funding, contributing just under a half of all available funding – alongside business rates, future revenue streams from affordable housing, and track charges.³⁵ Prior to the infrastructure coming online, competitions would be held to build out each site with developers. The successful bidders would build out the sites with planning permission once the infrastructure is ready.³⁶ Build-out rates can be expedited above current levels by ensuring greater levels of competition across the overall project.

Without this revenue stream, most projects may prove to be financially unviable which is why the changes in LURA 2023 are potentially so transformational. The impact that the uplift in land values can have in helping fund large-scale projects is dependent on whether the land acquired is greenfield or brownfield, the density of

32. Aubrey, T. (2018) *Gathering the Windfall*, Centre for Progressive Policy.

Available at: <https://www.progressive-policy.net/publications/gathering-the-windfall-how-changing-land-law-can-unlock-englands-housing-supply-potential>

33. Freiburg City Council (2010) *Rieselfeld – a sustainable urban development*.

Available at: https://www.freiburg.de/pb/site/Freiburg/get/params_E1706564130/347967/Rieselfeld_en.pdf

34. URBED (2008) *Making Ecotowns work: developing Vathorst*.

Available at: <http://urbed.coop/sites/default/files/Making%20Ecotowns%20work%20-%20developing%20Vathorst.pdf>

35. National Infrastructure Commission (2017) *Oxford to Cambridge Corridor*.

Available at: <https://nic.org.uk/studies-reports/growth-arc/>

36. The illustrative project had 186 identified strategic sites of different scales.

the plots, the quality of the infrastructure put in, and the resulting residential land value. Table 2 illustrates the impact the uplift in land values has in providing all of the affordable housing subsidy and the extent to which there are additional revenues to support infrastructure funding.

In our illustrative large-scale urban extension, the sources of funding will need to pay for around £16.8bn of upfront costs related to transportation, affordable housing, open spaces, site preparation and project management and delivery. The education and healthcare requirements would be paid for out of government departmental budgets and the utilities companies would pay for their investments

which would be clawed back through consumers paying for their services over an extended period of time. Prior estimates indicate that around £27bn of funding could be generated over the lifetime of the project (Table 3).

Once borrowing costs and the time value of money are taken into account, there still might be a shortfall. In these instances, the project may need to request specific grants from central government to cover any shortfall upfront in addition to contingencies. For example, the federal building code in Germany specifically excludes high-cost items such as tunnels from the definition of local public infrastructure, and hence may receive additional federal money to support such projects.

Table 2: Land value capture funding for 100% affordable housing and infrastructure

Land Value Uplift per unit £	Affordable Housing subsidy £	No. of Units of Project	Market Units	Affordable Units	Uplift on Market Units £	Affordable Housing Subsidy £	Residual for Infrastructure £
150,000	75,0000	100,000	65,0000	35,0000	9,750,000,000	2,625,000,000	7,125,000,000
125,000	75,0000	100,000	65,0000	35,0000	8,125,000,000	2,625,000,000	5,500,000,000
100,000	75,0000	100,000	65,0000	35,0000	6,500,000,000	2,625,000,000	3,875,000,000
75,000	75,0000	100,000	65,0000	35,0000	4,875,000,000	2,625,000,000	2,250,000,000
50,000	75,0000	100,000	65,0000	35,0000	3,250,000,000	2,625,000,000	625,000,000

Source: Centre for Progressive Capitalism

Table 3: Estimated costs and revenues for an illustrative project

Cost driver	Costs in £bn		Revenue source	Revenue in £bn
Transportation	9.9		Land value capture	11.6
Affordable housing	4.3		Rental income	10.5
Green spaces & site preparation	1.4		Track charges	3.9
Project management	1.2		Business rates	0.9
Total	16.8		Total	26.9

Source: Centre for Progressive Capitalism

The relative importance of land value capture as a funding mechanism to other potential sources makes large-scale projects more viable. Crucially this funding mechanism enables large-scale development to move away from having to be funded by general public expenditure and all of the major challenges that this has brought to poor delivery and cost management, towards being able to tap into additional market sources of funding through a long-term borrowing mechanism. This also avoids the need to go down the PFI route which has significantly higher costs and poor value for money. Projects in areas of high land values are likely to be self-funding once all the revenue sources are pooled together. Indeed, an analysis of the illustrative Oxford to Cambridge project indicated that this was the case.

While all self-funded projects should be supported by government, this doesn't mean that infrastructure shouldn't be delivered elsewhere to address the issue of regional inequality as noted by Coyle and Westwood, who have argued for a universal basic infrastructure.³⁷ However, the more self-funded projects that are supported, existing public funds from departmental budgets can be diverted to projects where they are needed most.

The key benefit of this approach is that it forces regional government to behave autonomously. Instead of MCAs asking government for large grants for entire projects, government provides additional grant funding to make already defined and detailed projects viable. This is critical to ensure that projects are delivered on time and on budget.

In conclusion, the building blocks are now in place for the UK to revert to the model it pioneered with the new towns via development corporations, which was subsequently copied and improved upon by many continental European countries.³⁸ The challenge, therefore, is what the government needs to do in terms of building new institutions and financing arrangements to make this a reality and deliver the infrastructure and housing the country so badly needs.

37. Erker, S, Coyle, D. Westwood, A. (2023) *Townscapes: A Universal Basic Infrastructure for the UK*. Bennett Institute for Public Policy. Available at: <https://www.bennettinstitute.cam.ac.uk/publications/townscapes-a-universal-basic-infrastructure-for-the-uk/>

38. Hall, P. (2013) *How Europe rediscovered the lost art of urbanism*. London: Routledge.

2. Financing of development corporations

Development corporations are already the preferred vehicle of choice for large-scale developments and have been used successfully across the United Kingdom (UK) for decades. How these bodies should finance development, however, remains a topic of debate. Development vehicles could receive a government grant to cover the financial liability which in turn comes from an increase in UK gilts issuance. This approach however falls foul of the governance issues raised by the National Audit Office (NAO). An alternative is to follow the new towns model and use the Public Works Loan Board (PWLb), although recent arbitrary changes to financing costs have reduced faith by local government in using this approach. In addition, the PWLB is funded by extra gilts issuance which may also negatively impact bond yields. This leaves direct access to the capital market which is a more common approach for large-scale development in many European countries.

Development corporations

During the post war era, the UK built a wave of new towns via development corporations. Development corporations are statutory bodies that facilitate development in areas that need large-scale coordination of investment and planning, and remain the key delivery bodies for this type of development. Over the years, different types of development corporation have emerged including:

- New Town Development Corporation (1946)
- Urban Development Corporation (1980)
- Mayoral Development Corporation (2011)
- Locally-led New Town Development Corporation (2018)
- Locally-led Urban Development Corporation (2023)

Since LURA 2023, development corporations now have similar powers including the ability to exercise plan-making and development management powers, the granting and refusal of planning permission, as well as powers to compulsory purchase land.³⁹ Crucially, development corporations no longer have a borrowing

cap which had previously been a significant potential constraint to their use, although borrowing needs to be agreed in advance with the Secretary of State.

The use of development corporations to drive planning, investment and the delivery of new housing was largely successful regarding the wave of new towns. During the 1980s, development corporations were used to regenerate urban areas such as Canary Wharf, and more recently they have become vehicles for Mayoral Authorities to drive development, including the Olympic Games legacy development.

The new towns were financed with loans from HM Treasury to the tune of £4.75bn, which were repaid by 1999.⁴⁰ The success in delivering infrastructure and housing at scale was driven by a number of key themes that were central to development corporations. These include the ability to employ highly skilled planners to develop a public-led integrated housing and infrastructure plan with significant levels of affordable housing. The ability to acquire land at values close to use value and extract betterment through the sale of serviced plots with planning permission, was central to their funding. From a financing perspective, they were able to access 60-year loans from the Treasury.

Development corporations also appear to address the concerns raised by the NAO in its criticism of the financing and delivery of infrastructure projects. The fact that this approach to development is public-led, and avoids the need to “guarantee” profits to a private sector entity including their associated higher financing costs, is a positive outcome. The governance issue also appears to be resolved because the development corporation needs to provide a detailed business plan for its funding and financing arrangements. Finally, although development corporations would need to have the support of central government, they are, in effect, devolved institutions working across their functional economic area. Hence the focus on development corporations to act as the delivery bodies for the next wave of infrastructure investment and housing is sound.

39. The government has recognised that Locally-led Urban and New Town Development Corporations: “may result in additional costs for local authorities compared to other delivery vehicles for large-scale development.” Hence the locally-led development corporations may be better suited to smaller-scale regeneration. Available at: <https://www.gov.uk/government/consultations/locally-led-development-corporation-consultation/08ea4877-ccc4-44de-b131-0f9707e81a42>

40. For further information see the following Town and Country Planning Association papers:

A New Towns Act? (2014) *New Towns and Garden Cities: Stage 1*; A New Towns Act? (2015) *New Towns and Garden Cities: Stage 2*; Unlocking the Potential for Large Scale Communities (2021); A New Future for New Towns (2021).

In our illustrative urban extension along the Oxford to Cambridge corridor, a development corporation would therefore produce a detailed set of costings for the project alongside its sources of funding. Based on this detailed plan it would raise the necessary finance to acquire and/or assemble all the public and private strategic land sites, and then proceed to commission the infrastructure. LURA 2023 enables development corporations to acquire land at significantly lower market values given that in certain circumstances the prospect of planning permission can be ignored in the market valuation including land bought for education, health and housing purposes which will also contain social housing units.

For land that already has planning permission, the development corporation would need to offer the full amount of the residential value of the land in compensation. While LURA 2023 requires the development corporation to submit a compulsory purchase order (CPO) requesting a direction from the Secretary of State (SoS) to ignore the prospect of planning permission, landowners could be offered a premium above the existing use value to ensure that a commercial transaction takes place instead of having to rely on a compulsory purchase mechanism which is clunky and takes time.⁴¹ To support this, the government should provide guidance in the National Planning Policy Framework (NPPF) that large-scale projects which meet certain criteria would be provided with the necessary SoS direction to ignore prospective planning permission should it be applied for.

The new towns offered just over twice agricultural values to landowners thereby providing a premium above existing use value to ensure swift acquisition of the necessary land.⁴² If a landowner refuses the offer thereby forcing a compulsory purchase order, they would receive less than the initial commercial offer in compensation following a direction by the SoS to ignore the prospect of planning permission. Given the ongoing infrastructure and housing issues across many parts of the UK, large-scale integrated sustainable developments would have a strong public interest argument, although this is less likely to be the case for small scale developments.

While most landowners would sell up, long-term landowners may wish to take part in the scheme. This would require those landowners to pay the development corporation for the financial liability resulting from the increase in land values due to the award of planning permission and the infrastructure by an agreed date. In addition, they would need to agree to build out their land in keeping with the scheme. These long-term landowners would therefore maintain possession of their land and generate returns on their property by delivering high quality schemes for which tenants would be willing to pay for - instead of relying on the uplift in land values flowing from the granting of planning permission for income.

The Development Corporation would manage the project to ensure that the building up of the infrastructure and housing sites proceeds according to the plan. The lenders of the required finance would then be paid back over an extended period of time as the sources of funding come online including, but not limited to, the sale of plots with planning permission, affordable housing receipts, business rates and future track charges. Given that LURA 2023 has made a significant contribution to resolving the viability and funding issue by removing the need to pay hope value on land acquisitions, large-scale development must now focus its efforts on how best to finance a new wave of urban extensions.

Financing sustainable new towns and urban extensions

The NAO's criticisms of the poor governance framework and a lack of incentives facilitating effective cost estimation and delivery, rules out the more recent approaches tried by government to finance large-scale projects through general public expenditure and departmental budget allocations. Furthermore, the high costs of private finance initiatives also indicates that this is unlikely to be an effective financing mechanism for a new wave of large-scale investment.

41. This does not mean that landowners are offered less than market value, but that the market value changes as a result of changes in planning assumptions. Bentley, D. and Aubrey, T. (2018) *Written evidence submitted by Daniel Bentley and Thomas Aubrey [LVC 096]*. Available at: <https://committees.parliament.uk/writtenevidence/92371/html/>

42. Bentley, D. and Aubrey, T. (2018) *Written evidence submitted by Daniel Bentley and Thomas Aubrey [LVC 096]*. Available at: <https://committees.parliament.uk/writtenevidence/92371/html/>

The financing model used for the new towns was the Public Works Loan Board (PWLB) which lent money to development corporations on long term maturities. The PWLB loans were provided by central government raising the additional required money as part of their general borrowing programme. However, there are two aspects to this financing approach that are potentially problematic.

The first is that the Treasury has control over the interest rate charged to the development corporation and can change the interest rate with limited notice. For example, a development corporation may well have developed its plan based on the known rate of interest published by the PWLB for a 40-year loan. However, by the time the development corporation is ready to agree to the loan, HM Treasury may well have increased the interest rate offered to the development corporation.

In 2010, the Treasury raised the interest rate margin over UK gilts by 100 basis points (bps) or one percentage point to minimise absolute levels of borrowing. In 2013, for authorities that met certain conditions, it was reduced to 80bps over UK gilts. In 2018, due to lower interest rates combined with record borrowing, the Treasury increased the margin applied to new loans by 100bps.⁴³ Some local authorities indicated that this would cause them to seek alternative sources of financing due to the jump in costs, and would make schemes potentially less viable.⁴⁴ Such a dependency does not bode well for a stable and consistent governance structure to facilitate the scaling up of infrastructure investment. This was one of the main reasons why the Municipal Bonds Agency was set up by local authorities and the Local Government Association to provide greater certainty of financing costs – and to provide financing costs that were cheaper than the PWLB.

The second challenge with using the PWLB is that the bond market has little visibility into the type of projects that are being financed through an increase in borrowing. The bond market is likely to become increasingly concerned about the overall level of national debt, and potentially demand higher interest rates, thereby driving

up borrowing costs for the UK government. What matters for the bond market is the extent to which the principal and interest payments have sources of funding that are predominantly from the market rather than being predicated on future higher levels of taxation.

In 2017 the Treasury offered concessionary interest rates⁴⁵ for infrastructure projects via the PWLB at just 60 bps over UK gilts. However, this approach ignored the critical importance of scale for infrastructure investment, thereby perpetuating a low growth environment. The concessionary rates were maxed out at £1bn for the whole of the UK with a maximum loan of £100m for an individual project. But this would not cover the financing of any infrastructure of relevance that might help drive growth.

An alternative for a development corporation would be to raise the funds directly from the capital market through bond issuance either as a standalone entity or via its public shareholder, such as a local authority or a county/city-region combined authority.

To date, a number of local authorities have tapped the capital market for development purposes including Warrington Council which raised £150m to redevelop the town centre in 2015. The Greater London Authority (GLA) has also issued bonds as part of the financing for Crossrail including a £600m issuance in 2011. However, there remain many legitimate concerns surrounding local authorities increasing their borrowing for capital projects due to their lack of scale.

The fact that local authorities lack scale and do not cover functional economic areas results in two fundamental disadvantages. First, their credit risk continues to deteriorate due to a lack of diverse sources of funding, alongside recent substantial cuts to local government funding. Second, the lack of scale makes it much harder to build up and remunerate a sufficiently deep pool of specialist expertise, alongside creating the necessary layers of governance which are required for successful large-scale development and financing.

43. HM Treasury (2019) *Letter from HM Treasury to the UK Debt Management Office: 9 October 2019*.

Available at: <https://www.dmo.gov.uk/media/i5ppsg1m/hmt-letter-9-october-2019.pdf>

44. Room151 (2020) *Councils to seek PWLB alternatives to maintain capital programmes*.

Available at: <https://www.room151.co.uk/treasury/councils-to-seek-pwlb-alternatives-to-maintain-capital-programmes/>

45. HM Treasury (2018) *Local Infrastructure Rate*. Available at: <https://www.dmo.gov.uk/responsibilities/local-authority-lending/concessionary-rates/>

In the case of Warrington, its funding sources are highly dependent on revenues from commercial property and is one of the reasons why the rating agency Moody's downgraded their credit rating to Baa1 from A3 in October 2023.⁴⁶ Things have deteriorated for Warrington with Moody's placing it under review for further downgrade in March 2024 due to the lack of sufficient, current audited financial information caused by a backlog of unaudited accounts;⁴⁷ which has subsequently led to a withdrawal of the rating. The lack of scale, and its effect on poor governance are clear – in addition to the overall deterioration in the funding environment.

Cornwall, which is a unitary authority and therefore has greater scale and hence more diverse sources of funding, also saw its credit rating downgraded in October 2023 along with other UK authorities. However, its current credit rating of A1 is still three notches or credit rating grades above Warrington before its rating was withdrawn. Moody's cites the fact that Cornwall has a strong track record in budgetary management. Scale is also an important factor related to Transport for London (TfL), part of the GLA, and which issued debt to help finance Crossrail. While its overall debt outstanding is now over £15bn, Moody's recently upgraded TfL in November 2023 partly due to its strong governance.⁴⁸

A House of Lords report (2023) on local government finances indicates that the situation for local authorities that lack scale with limited diversity of funding sources has been made worse by the reduction in government grants of 21% in real terms between 2009/10 and 2021/22 including pandemic support. This fall in government grants has not been offset by sufficient rises in income from other sources such as council tax and business rates. Councils have responded by redirecting spending towards statutory services, particularly social care, which has led to swingeing cuts in many areas. The House of Lords report noted that, "Spending on all services excluding

social care (including non-school education, highways and transport, cultural and related services, and planning and development)" was 25% lower in real terms in 2019/20 than in 2010/11.⁴⁹

As local authorities take every step available to them to balance their budgets, this also has implications for their ability to embark upon long-term capital projects. Local authorities must consider the effect of borrowing costs on its day-to-day revenue budget, which legally cannot be in deficit. To ensure local authorities are able to fund any debt raised for capital investments when it comes due, a Minimum Revenue Provision (MRP) is levied which can be understood as a charge against income streams such as council tax and social housing rents. The MRP exists to ensure that a local authority's debts are met, however, this is also a cost on the revenue budget which is concerning given budgets are already in serious trouble. Indeed, a recent survey highlighted that the majority of local authorities are now dipping into their reserves,⁵⁰ further weakening the rationale for individual local authorities to engage in large-scale capital projects.

Hence it is hard to see that it would be sensible for local authorities to become the de facto public bodies that interface with the capital market on behalf of development corporations given that they lack the scale to create the appropriate governance frameworks and maintain a deep pool of expertise. In addition, they are negatively impacted by the lack of diverse sources of funding. Hence, it is unsurprising that local authorities are experiencing a deterioration in their perceived credit risk as has been observed in the credit rating downgrades by Moody's. The deterioration in credit risk will also impair the ability of local authorities to raise finance via alternative routes such as the UK Municipal Bond Agency (UK MBA).

The goal of the UK MBA when it was founded was to try and reduce the cost of financing compared to

46. Moody's (2023) *Moody's has taken rating actions on 61 sub-sovereign entities after rating methodology update*.

Available at: https://www.moodys.com/research/Moodys-has-taken-rating-actions-on-61-sub-sovereign-entities-after-Rating-Action--PR_480859

47. Moody's (2023) *Moody's places Warrington Borough Council's ratings on review for downgrade*.

Available at: https://www.moodys.com/research/Moodys-places-Warrington-Borough-Councils-ratings-on-review-for-downgrade-Rating-Action--PR_487072#Read-Next

48. Moody's (2023) *Moody's upgrades Transport for London's ratings to A3 from Baa1*.

Available at: https://www.moodys.com/research/Moodys-upgrades-Transport-for-London's-ratings-to-A3-from-Baa1-Rating-Action--PR_482238

49. House of Lords Library (2023) *Local government finances: impact on communities*.

<https://lordslibrary.parliament.uk/local-government-finances-impact-on-communities/>

50. Local Government Information Unit (2024) *State of Local Government Finance in England 2024*.

Available at: <https://lgiu.org/wp-content/uploads/2024/02/State-of-Local-Government-Finance-in-England-2024.pdf>

the PWLB (Public Works Loan Board) lending facility. But this is increasingly challenging given that the underlying creditworthiness of local authorities is under greater pressure. The Agency offers two main services including a guarantee of a loan which is proportional to the borrowings of that local authority as part of the overall level of outstanding debt. In addition, there are unguaranteed loans for £250m or more which require the entity to obtain an external credit rating.⁵¹

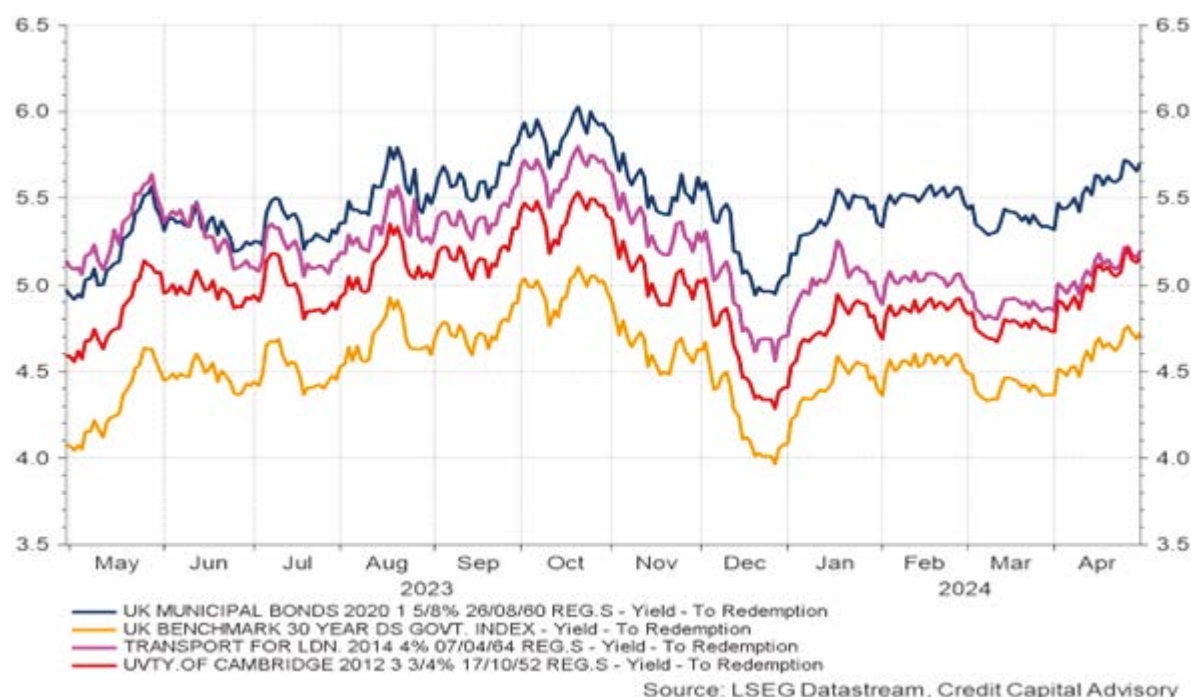
Although the UK MBA conducts its own credit risk assessment which means that those authorities in financial trouble would not be able to access its services that provide a proportional guarantee, in theory, it could be a vehicle for local government with scale to potentially reduce the cost of financing for the most creditworthy authorities.

The first issuance via the UK MBA was Lancashire County Council which issued a bond for £350m with a five-year maturity through the agency in March 2020 - although this bond is not covered by the proportional guarantee

of the Agency. The five-year fixed rate bond was priced at 80 basis points (bps) above the Bank of England's SONIA interest rate, which reflects the average interest rate that banks borrow sterling overnight from other financial institutions. The cost of financing for Lancashire County Council was therefore 133 bps above the five-year UK gilt in March 2020. Given that the PWLB was still impacted by the 2018 rules which increased interest rates, the Agency route was by far the cheaper option coming in at 1.51% compared to the PWLB rate that day of 2.21% - a saving of 70 bps. However, this competitive advantage from using the Agency has fallen given that the PWLB has now rescinded the 2018 increase of 100 bps.

Indeed, as of June 2024, the costs of a 40-year loan from the PWLB were 5.40% or 102 basis points higher than the yield on the UK 40-year gilt. Hence, it is unclear whether the Municipal Bond Agency is necessarily going to make long-term loans more competitive, although they will not be subject to the arbitrary changes that the Treasury can place on financing costs.

Chart 1: Comparison of bond yields of different UK public authorities



51. UK Municipal Bonds Agency (n.d.) *Local authorities*. Available at: <https://ukmba.org/local-authorities/>

One important function of the bond market is that it actively discriminates between the credit risk of different public authorities issuing debt based on a standalone creditworthiness assessment. For example, the Municipal Bond Agency's debt is priced at about 100 bps above UK gilts, while Transport for London and the University of Cambridge bonds trade at around 45 bps above UK gilts. There is no liquidity on Warrington's bonds but an estimate by the author indicates that they are likely to be in the region of at least 200 bps above UK gilts based on its credit rating of Baa1 with a watch for a possible downgrade (and therefore would be three credit rating grades lower than Municipal Bond Agency debt).⁵²

The standalone credit risk of a public authority is therefore central in thinking about maintaining a lower cost of financing. This requires public entities to have scale alongside diverse sources of funding that cover a functional economic area. Given that scale and diverse sources of funding matter for entities that are in effect the parent or sponsor of the development corporation looking to issue debt, the parent or sponsor of the development corporation should therefore be a city region or county authority such as Cornwall, the Greater Manchester Combined Authority or the GLA. This approach to using debt to finance a new wave of sustainable urban extensions and new towns will help reduce the credit risk inherent in such activity and reduce the cost of financing. If the regional authority doesn't have sufficient capacity or capability, then the state could set up a development corporation in an area working with key local stakeholders.

It was noted above that the cheapest cost of financing via UK gilts flowing through to departmental budgets is unlikely to deliver projects on time and on budget due to the lack of sufficiently robust governance arrangements. Furthermore, other European countries generally do not fund their large-scale developments via general public expenditure but rather by tapping into the capital market for a specific project. It is therefore critical to ensure that the cost of financing obtained by projects is as low as possible to maintain financial viability.

If the cost of financing prevents the project from being self-financed, the UK Infrastructure Bank (UKIB) could be used to guarantee good quality projects that have a high public interest test – similar to how the French state has guaranteed the Grand Paris Express project to reduce the cost of financing.⁵³ For this to work, a separate UKIB scheme would need to be adopted for new towns and large-scale urban extensions that already have excellent credit quality. In addition, the charging of a guarantee would need to be dropped given that the project is already viable.

With a guarantee, it is feasible that this would reduce the spread over gilts issuance down from around 100 bps towards the levels the NAO cited in 2015 of around 50 bps.⁵⁴ This would potentially save at least 50 bps per annum on the cost of financing over a 40 -period. If the overall issuance was £12bn this would amount to an annual cost saving of around £30m per annum or £1.2bn over the 40-year project based on the June 2024 gilt yield of 4.3%.

It is increasingly clear that the most important local government institutions will be those at scale, as set out in the devolution plan in LURA 2023. Scale can enable more effective governance and also improve the overall credit risk of the issuer of long-term debt. With these steps in place, development corporations or their county/ city region sponsors would be in a strong position to raise finance directly from the capital market for long-term investment projects, tapping into various funding sources to ensure their financial obligations are met. This approach has long been the norm across much of Continental Europe including France and Sweden as is described in the following two examples.

52. The comparisons are only rough given the maturity of the bonds are not exactly the same but at the long end of the curve this is unlikely to result in any significant variance.

53. Guarantees are treated as contingent liabilities and are not considered on-balance sheet items.

54. Although there is some evidence of UKIB guarantees pricing between 80-100 bps, these are for irregular one-off small deals and hence are not a good benchmark for long maturity large-scale issuance.

Financing large-scale development via the capital market: Paris and Gothenburg

Grand Paris Express

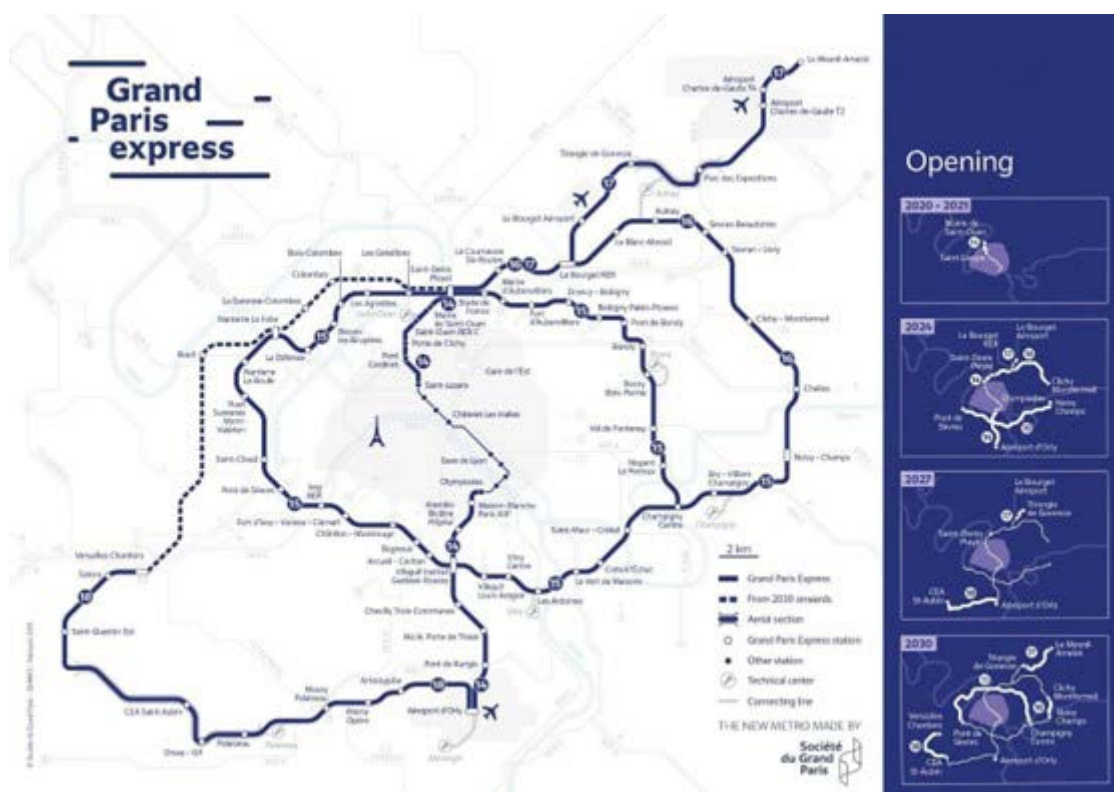
The Grand Paris Express project will link the main residential and business districts of the suburbs without having to pass through the centre of Paris. It will come into service in stages between 2024 and 2030. The project involves extending four existing metro lines and the creation of four new lines. This will make travel easier, serve areas that are not easily accessible by public transport and develop new station areas for residential housing. The project will result in 68 new metro stations, with new neighbourhoods expected to grow around each one. The project expects to increase GDP by €100bn and generate incremental tax revenues of €40bn.

Phase 1: By 2025, 35 station neighbourhoods will provide 84,000 housing units, 2.5 million m² of office space and over two million m² of other types of businesses.

Phase 2: By 2030, 33 station neighbourhoods will provide 93,000 housing units, 5.8 million m² of office space, 1.6 million m² of facilities and over four million m² of other businesses and activities.

It is estimated that the project will enable up to 400,000 housing units to be delivered, with around 250,000 by 2030. This is critical as in 2018 only 373 housing units were added to the Paris market.

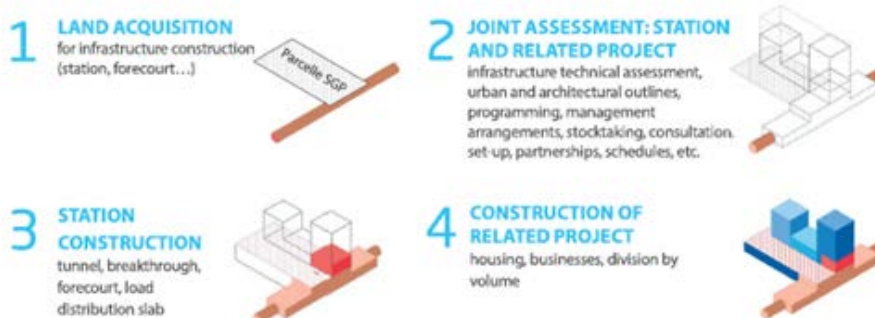
The Metro station sites were chosen based on the ability of the project to control the land. Each site was then subject to a competitive bidding process which required bidders to demonstrate the quality of the project including innovation and architecture, alongside financial viability and the sales price of units.



Source: Societe du Grand Paris

BUILT STEP BY STEP

The related project will be delivered in a series of steps, the decisive one being the joint assessment of the related project and the station.



Source: Societe du Grand Paris

The winners of the competition for each site⁵⁵ will proceed to acquire the plot from *Societe du Grand Paris*, which is in effect a serviced plot, and build out the site according to the agreed plans as described above in the step-by-step process. This process also facilitates greater competition among developers and a more rapid build out of the site given that the cost of the serviced plot is high for the developer and generally funded through debt financing.

The funding and financing of the project is through Société des Grands Projets (SGP) which is a fully owned entity controlled by the French State – an Etablissement Public Industriel et Commercial (EPIC). EPICs are state-controlled entities of an industrial or commercial nature, including infrastructure operators and cannot be declared bankrupt. Hence although this is a regional project, its owner is the state rather than the city region.

As the project owner, SGP was tasked with designing the project, overseeing the delivery of the infrastructure and supporting the transformation of the metropolitan area through the urban development and property projects around the new stations.

The SGP is financed by accessing the capital market directly with a €35bn debt ceiling by law. The most important financial instruments are long maturity green bonds, which are supplemented by direct credit lines from the European Investment Bank alongside commercial

paper issuance for liquidity purposes. In terms of the cost of funding, the bond pricing is between 20 to 40 bps above French Treasuries. Direct access to the capital market enables infrastructure to be delivered quickly upfront, which in turn is funded over a longer period using diverse sources of revenue.

The outstanding debt will be fully amortised by 2070 through diverse sources of funding including 100% of operational cash flows from the project, and critically an annual share of five specific taxes dedicated to debt repayment amounting to around €0.8bn per annum. Tax includes:

- A share of office-space tax (*taxe sur les bureaux*, TSB) receipts, with revenue from this source reaching €544m in 2020, which forms the bulk of the revenue streams.
- Revenue from a special equipment tax (*taxe spéciale d'équipement*, TSE), which was created in 2010 for the specific purpose of funding the Grand Paris urban project (€117 million in 2020).
- A flat-rate tax on network business (*imposition forfaitaire sur les entreprises de réseaux*, IFER), capped at €65m per year.
- Additional tax revenues are derived from a regional tourist tax and parking spaces tax.

55. Inventons La Metropole du Grand Paris. *Règlement*. Available at: <https://www.inventonslametropoledugrandparis.fr/en/reglement.html>

In summary, the significant amount of infrastructure required for the project means that it needs dedicated tax revenue to help pay for it rather than the more limited projects in Freiburg and Amersfoort which were funded by selling serviced plots. The funding arrangements therefore can be expected to follow the kind of infrastructure that is required.

Gothenburg

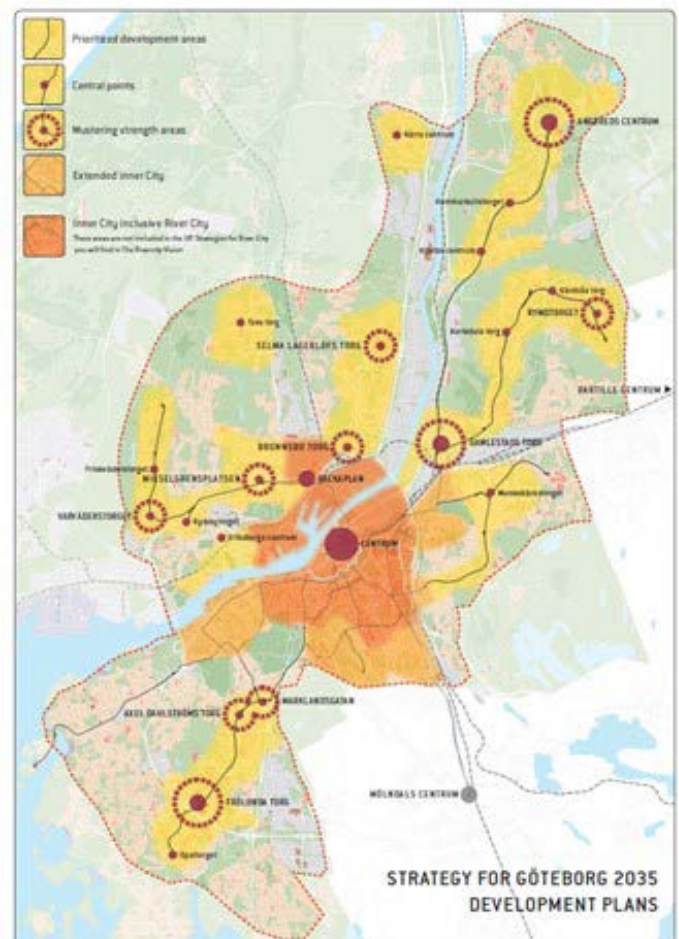
Gothenburg needs to grow rapidly to make space for 150,000 new inhabitants by 2035 requiring an additional 55,000 homes. The strategy for the development plan focuses on the area surrounding the city centre or the intermediate city, which already has good public transport links and is where most of the city's inhabitants live and work. Hence it ought to be seen as a densification project rather than an urban extension. The plan aimed to create more attractive areas for new companies to become established, and to create a more sustainable approach to living. The Development Strategy has been produced in close cooperation with the City Planning Authority and Property Management Administration.

Knowledge intensive services do not require large premises but they tend to want to establish themselves in areas characterised by density and accessibility. However, few places in Gothenburg met these requirements so there was considerable demand for new modern premises in central locations. The aim in the Development Strategy is that more sites in the city will live up to the business sector's requirements to enable them to grow and create more jobs.

Infrastructure investment in the plan focused on facilitating travel within the city including pedestrian and bicycle traffic projects, public transport and the road-based freight system, all of which required new bridges to improve linkages. In addition, a large "West Link" eight-kilometre two-track commuter train tunnel under central Gothenburg was required alongside a new road tunnel. A focus was also placed on improving transportation linkages in the North East of the city centre (Gamlestaden) for train, bus and tram traffic. Hence, the project can be understood as a development from the centre outwards

with a focus on key nodes rather than a suburban project. While many of these transport additions were financed through a state-municipal deal, and managed by the national transportation authority, they were all completely integrated with the overall development project. Without this level of coordination between all key stakeholders managed by the municipality, such a large-scale development is not practicable.

An assessment of the costs has put the total figure at around €100bn euros. One analysis indicated that infrastructure and logistics costs will be around €13bn, new industrial sites also around €13bn and €8bn for new office and retail space. Housing, however, is the major



Source: Gothenburg Development Plan

investment driver of the project with around €41bn.⁵⁶ This investment estimate includes the municipality housing company which is anticipated to build around a fifth of the new units. Given that the municipality housing company needs to, for competition reason, generate market returns it should not affect the overall costs of the project – although it may possibly increase municipal borrowing costs at the margin.

The project is owned, developed and run by the City of Gothenburg which covers the entire functional economic area.⁵⁷ So this is different to the nationally owned Grand Paris Express project.

To finance the project, the municipality, through its Group Bank, taps the capital market to raise the necessary funds. Over two thirds of the loan financing (68%) takes place through bond issues and certificates utilising established programmes such as its green bond framework. A portion of the debt is raised through Kommuninvest – which is similar to the UK Municipal Bond Agency.

According to Standard & Poor's,⁵⁸ debt outstanding in 2023 was SEK 56bn and will rise to SEK 73bn in 2026. However, due to the robust expected economic growth and accompanying tax flows as the city grows, the rating agency doesn't currently see any deterioration in creditworthiness. In addition, a lot of the capital raised has been on-lent to municipal companies including the housing company Förvaltnings AB Framtiden and the water and waste company Gryaab – both of which have strong and stable business profiles.

Swedish municipalities have the first claim on income tax which is paid locally at rates between 29-35%. High-income earners pay an additional income tax levy of 20% which flows to the state. This strong level of fiscal devolution means that cities like Gothenburg enjoy extensive fiscal autonomy and therefore tend to issue bonds directly to fund the delivery of public services and infrastructure.

In its 2022 Annual Report, Gothenburg's revenue of 49.2bn SEK included 32.9bn SEK from tax (67%), 4.6bn SEK of state subsidies and a plethora of other small line items. Its debt in 2022 was around 47bn SEK. In addition to income taxes, the municipality makes money from other areas which include land sales to developers with planning permission or building permits.

While land sales with building permits by the municipality to private sector entities is the norm, the state housing company Framtiden in January 2024 bought land with building permits for SEK 1bn from the Balder and Serneke consortium. This consortium originally bought land without planning permission or building permits from the public development company Älvstranden Utveckling AB which had inherited assets from the state-led rescue operation of the shipyards when they closed.

The active involvement of the municipality in local development raises the potential governance issue that there are unclear lines between the 2035 development plan and business as usual. All of the revenues and costs are aggregated together through the municipal bank, which in turn uses various approaches to maintain a lower cost of financing via the bond market. One might argue that as long as the overall budget is managed well, this is not an issue. Some concerns have been raised that the project has developed scope creep and that the development vehicle is taking on more than was initially in the plan. There are likely to be additional governance benefits by financing specific detailed projects via the capital markets rather than issuing general local government debt. This direct financing approach helps improve project discipline through greater transparency on revenues and costs, rather than aggregating everything together.

56. SWECO (2016) *Scandinavia's largest development programme: the Gothenburg region – 100 billion euro to be invested up to 2035*.

Available at: https://www.businessregiongoteborg.se/sites/brg/files/downloadable_files/investment20mapping.pdf

57. The rail tunnel link is built by the national transportation authority although it is a fully integrated component of the project

58. Standard & Poor's (2024) *City of Gothenburg*. Available at: <https://goteborg.se/wps/portal/enhetssida/investor-relations/reports/credit-rating>

Despite these governance issues, the project can be seen as a success and is being delivered on time and roughly on budget. However, the project has greatly benefitted from the overall buoyancy of the Gothenburg economy due to the expansion of R&D intensive activities across a number of high value sectors including battery development, pharmaceuticals and aerospace. Projects may not always be this fortunate.

These two examples provide different perspectives on the ultimate owner of the development vehicle. For Paris, it is the French state and for Gothenburg, it is the municipality. Above, it is argued that the Mayoral Combined Authority or County is likely to be the most sensible owner of these development corporations. However, there may be good reasons for the UK state to own a development corporation if the Mayoral Combined Authority or County doesn't have sufficient capacity and capability to deliver projects at scale.

3. Debt classification and fiscal impact

If the government wishes to accelerate housebuilding, the necessary infrastructure will need to be financed and delivered up front, thereby opening up new areas for integrated housing and transport developments with the necessary amenities and affordable housing. The challenge for the government is that such projects cannot be financed by a general increase in gilt issuance, due to concerns that bond yields will widen from excessive debt. Indeed, the Treasury is right to be sceptical of claims that the delivery of new infrastructure per se will result in higher levels of productivity and hence greater future tax revenues. Projects that are funded by the private sector instead of government taxation will not impact gilt yields. Hence, if the government is committed to raising economic growth and increasing housebuilding, it should actively support such projects. This is also why the independent classification of the debt of these projects will play a key role in ensuring all market-funded projects progress.

Debt classification

The UK government follows international best practice in terms of the classification of debt – which is framed by the 2010 European System of National and Regional Accounts (ESA 2010). This framework provides definitions related to the public sector finances, government deficits, and excessive debts. This framework also ensures that politicians are unable to arbitrarily change the accounting rules, potentially resulting in a fiscal crisis.⁵⁹ The Maastricht criteria, which is embedded into the ESA 2010, requires each European Union country's budget deficit to not exceed 3% of GDP and to ensure that general government debt must not exceed 60%.

ESA 2010 makes it clear that general government debt includes the debt from central government, local government, and social security. General government debt also includes public institutional units which are deemed to be non-market producers that depend heavily on taxation or other non-market sources of income. According to ESA 2010, the definition of general government debt excludes all debt from government-controlled units or public corporations that are considered market producers, although these corporations are still deemed to be

part of the public sector. Hence, there is a fundamental difference between debt that has identified market agents to pay back the liability and those that require general government expenditure or taxation.

The Office for National Statistics (ONS), following ESA 2010, first needs to decide whether the unit with debt liabilities is a market or a non-market producer. ESA 2010 provides a pragmatic rule whereby a unit is judged to be a market producer if, over a sustained period, more than 50% of its funding comes from the market rather than government. A public corporation with the majority of its funding coming through grants and/or taxation will typically result in classification as a non-market entity. Public corporations that pass the market test are excluded from the general government debt calculation whereas those that fail the market test are considered part of general government debt.

For example, the broadcasting arm of the BBC is deemed to be a non-market body given that the TV License is its main source of revenue. The license is deemed to be a tax and hence its debt is included in the general government debt, whereas BBC Studios, which sells the rights of BBC productions worldwide, is a market body given it generates revenues from the market for its content.

Once these classifications have been made, the ONS then determines whether an entity is a public corporation which is defined whether the government exercises “significant control over the general corporate policy of the unit?”⁶⁰ If it does, it is then classified into one of the following four sub-sectors:

- Bank of England
- Public sector banking groups
- Public sector pension funds
- Non-financial corporations

This classification process enables the market and the government to understand whether debt issuance for a specific project is predicated on market sources or on future government taxation. Such an approach is central to understanding which projects will impact bond yields and

59. Eurostat (2019) *Manual on Government Deficit and Debt*.

60. ONS (2023) *Monthly statistics on the public sector finances: a methodological guide*.

which projects will not – which is critical when thinking about fiscal policy.

In 2022,⁶¹ the UK introduced new fiscal targets including:

- to have public sector net debt (excluding the Bank of England) as a percentage of GDP falling by the fifth year of the rolling forecast period
- to ensure public sector net borrowing does not exceed 3 percent of GDP by the fifth year of the rolling forecast period

The current chancellor proposed similar fiscal targets in her Mais Lecture where⁶²:

- debt must be falling as a share of the economy by the fifth year of the forecast
- the current budget must move into balance so that day-to-day costs are met by revenues

The rule to move the current budget into balance is intended to replace the existing rule of ensuring total net borrowing does not exceed 3% of GDP by the fifth year of the rolling forecast.

The public sector net debt (PSND) figure published by the ONS and used by the Office for Budget Responsibility (OBR) is central to managing fiscal policy. PSND excludes both Bank of England debt as well as financial public corporations such as public sector banks. The exclusion of public financial corporations makes sense given that according to ESA 2010 public corporations that are market producers are not to be included in the general government debt calculations – which are used as the basis for the excessive deficit procedure. However, in the UK, non-financial public corporations that are market producers are included in the PSND calculation which is a clear divergence from agreed European standards. This divergence is inconsistent with the fact that public sector banks are excluded from the PSND calculation.

It is bizarre to include debt that has already been assigned to the private sector for repayment within

the government's fiscal rule. This rule also puts the UK at a competitive disadvantage given that European countries can embark upon a much higher rate of investment without impacting the country's fiscal position – particularly given that the infrastructure stock as a percentage of GDP is already much higher across Europe compared to the UK.

Across Europe, projects that are infrastructure-heavy like the Grand Paris Express and the Gothenburg expansion, and require taxation to help pay back the bond holders, would fail the market test rule and the debt would therefore be considered as part of general government debt. Projects such as the Amersfoort and Freiburg developments, which did not rely on taxation, therefore pass the market rule test and are excluded from fiscal rule calculations.

In terms of our illustrative Oxford to Cambridge Corridor, given that the majority of the funding is expected to come from the sale of serviced plots with planning permission, affordable housing rents and track charges, this would pass the market rule test and therefore would not impact gilt yields. This kind of transparency for projects matters in ensuring the UK's new wave of sustainable urban extensions and new towns are not penalised by the bond market. In addition, it is recommended that the OBR assesses the ongoing risk of individual projects independently as part of their remit so it is clear that they will continue to rely on market sources of funding.

One of the most important benefits of this approach is that the level of detail each development corporation will need to provide, will generate far more transparency than existing departmental budget forecasts. This includes the level of debt, which will be clear from the bond financing programmes, as well as identifying the sources of future cash flows to pay back the bondholders.

To expedite this opportunity to transform the built environment, the government should provide each area that has the desire to grow with initial funding to develop plans for ambitious large-scale transport and

61. HM Treasury (2023) *Charter for Budget Responsibility - AS22 - FINAL as published in draft*.

Available at: https://assets.publishing.service.gov.uk/media/63d15c6cd3bf7f3c4900f11a/Charter_for_Budget_Responsibility_-_AS22_-_FINAL_as_published_in_draft.pdf

62. Rachel Reeves (Mais Lecture 2024) Available at: <https://labour.org.uk/updates/press-releases/rachel-reeves-mais-lecture/>

infrastructure development, integrated with housing at higher levels of housing density.

One example of this is the funding provided by government for the Cambridge Delivery Group⁶³ which is preparing the groundwork for the establishment of a development corporation. The ambition set by the prior government is to grow Cambridge by an additional 150,000 houses compared to the additional 50,000 houses in the existing local plans. This group has been set up independently of the local and regional planning groups around Cambridge which has unsurprisingly created some tensions. However, for decades local planning teams have been hampered by resourcing challenges and therefore have not had the opportunity to plan at a much larger scale – particularly regarding significant transport and infrastructure projects. Furthermore, the expansion of Cambridge has been hampered by a lack of water infrastructure and good-quality public transport. These issues can be resolved via the proposed approach.

For decades the modus operandi of local authorities has largely been based on going to central government cap-in-hand asking for money. The LURA 2023 fundamentally changes this dynamic enabling functional economic areas to take back control and invest for their future. While most parts of local government have been supportive of the move towards greater devolution, this also requires devolved authorities to step up and plan for their future without relying solely on Whitehall for handouts. Unfortunately, not all devolved areas have yet to appreciate this part of the bargain, which ought to be a crucial governance test for initial financial support.

Indeed, central government should only financially support areas that have the ambition to grow and agree to integrate transport and other infrastructure with housing at scale. This also means that central government should refrain from supporting projects in areas that have little interest in growing or adding new homes alongside improved transportation. According to the Ministry of Housing, Communities & Local Government in 2021 one

in 10 local authorities still do not have a plan.⁶⁴ Hence there needs to be more incentives for pro-growth areas and fewer handouts for anti-growth areas. Without growth, Britain cannot afford to fund good quality public services.

In addition to the expansion of Cambridge, numerous other opportunities could result in projects funded by the private sector. The cancellation of the HS2 link between Birmingham to Manchester provides a significant opportunity for both the West Midlands and the Greater Manchester areas to integrate both intercity connectivity alongside significantly improving cross-city transportation with housing. One of the great failures of HS2 was to ignore the role of housing in supporting the funding arrangements for the railway. This project could help densify housing in Birmingham and Manchester close to transport hubs following the approach pursued by Gothenburg and Paris, in addition to developing housing close to existing and new stations between Birmingham and Manchester. Any new railway between Birmingham and Manchester would also be able to ignore the original HS2 specifications to travel at 400 kph and drop it to below 300kph given that this design requirement was a significant driver of costs.⁶⁵

There is also no reason why the preferred Northern Powerhouse Rail route from Liverpool to Hull could not be partially funded by integrating it with denser housing such as in Bradford and new urban areas to the east of Leeds. The approach to date has been to just request government to fund its preferred project in full with the mantra that more infrastructure will result in higher productivity growth and hence higher future taxes at some stage. But this approach carries significant risks.

Other potential areas to deploy this mechanism include along the Bristol to Cheltenham corridor which is also a pro-growth area – but one that is seriously hampered by poor connectivity and infrastructure. The West of England has made prior attempts to develop an integrated transport plan – however, this was not fully integrated with new housing areas. In addition, the Cheltenham area is also pro-growth and looking to expand.

63. Ministry of Housing, Communities & Local Government (2024) Cambridge Delivery Group: Establishing a Growth Company.

Available at: <https://www.gov.uk/government/publications/cambridge-delivery-group-establishing-a-growth-company/cambridge-delivery-group-establishing-a-growth-company>

64. Ministry of Housing, Communities & Local Government (2021) Councils urged to ensure Local Plans are up to date.

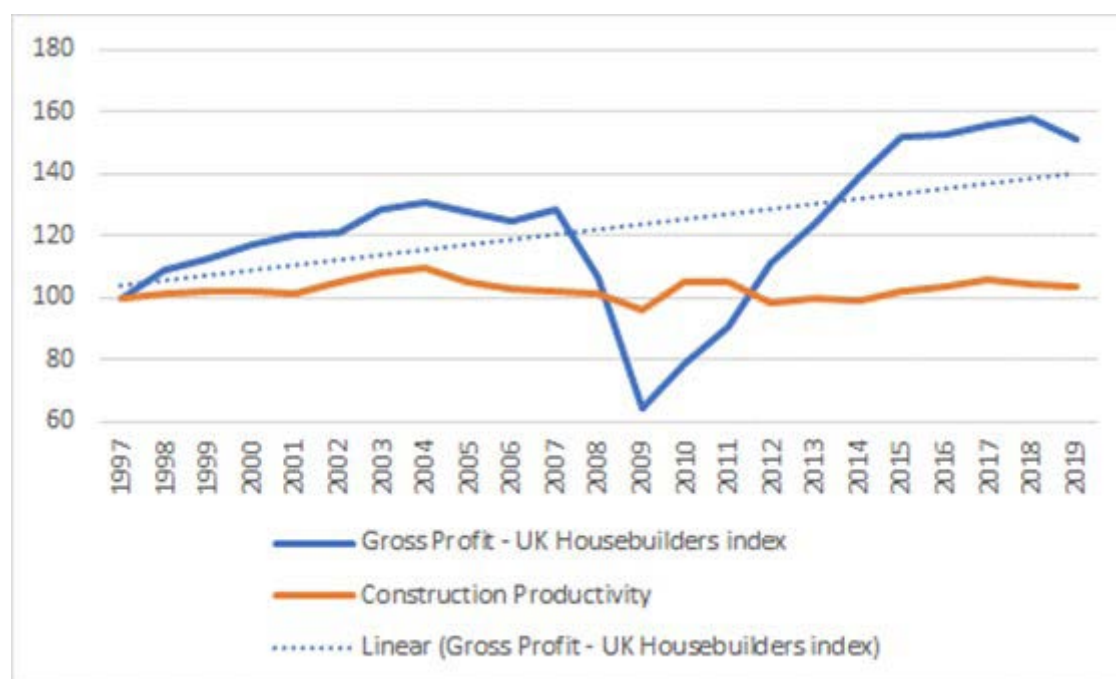
65. Bostock, M. (2021) 'What HS2 could have learned from HS1's 30 years of success', *New Civil Engineer*.

Available at: <https://www.newcivilengineer.com/latest/what-hs2-could-have-learned-from-hs1s-30-years-of-success-14-10-2021/>

There are also opportunities in London to use this mechanism such as integrating the final stretch of HS2 between Old Oak Common and Euston with the regeneration of Old Oak Common and Euston railway stations. Unfortunately, the current approach to development is to treat these projects separately instead of being integrated, which is poor practice from a funding and delivery perspective. In addition, there is no reason why the bold initiative from Transport for London for Crossrail II cannot be revived linking Hertfordshire to Surrey travelling from northeast to southwest London. However, if Hertfordshire and Surrey are to benefit from this massive infrastructure investment, they would need to support an increase in large-scale higher-density housing development around their stations as initially proposed. The UK cannot afford to invest in new infrastructure without the associated increase in housing.

Finally, once development corporations have developed their long-term plans, including the detailed infrastructure requirements and costs, the density of housing and sale prices of service plots, competitions to develop different sections of the plan could be launched as per the Grand Paris Express project. This would also increase competition in the housebuilding sector as it wouldn't require housebuilders to use their balance sheets to manage planning risk. In addition, this may help drive faster productivity growth given over the last 20 years or so, profits for housebuilders have risen without much increase in productivity.⁶⁶

Chart 2: Comparison of UK listed housebuilders gross profit and residential construction labour productivity



Source: LSEG Datastream, ONS, Credit Capital Advisory

66. Aubrey, T. (2021) *Why policymakers must focus on sectoral productivity dynamics*. Bennett Institute for Public Policy: Cambridge. Available at: <https://www.bennettinstitute.cam.ac.uk/blog/sectoral-productivity/>

Conclusion

This report has argued that the government should deliver the next wave of new towns and large-scale urban extensions via development corporations which integrate infrastructure with higher density housing for sustainable living. The recent changes to the Levelling-up and Regeneration Act 2023 (LURA 2023) make these large-scale developments more viable given the ability to ignore land compensation payments for prospective planning permission during the land assembly process. Future governments should not repeat the errors made in the construction of the Jubilee line and Crossrail where housing was not integrated and hence played a very limited role in helping fund the projects.

Central to this approach is to ensure that how these projects are financed does not impair the fiscal position of the UK. Projects identified as having 'market producer' will not impact the cost of borrowing and hence should be actively supported.

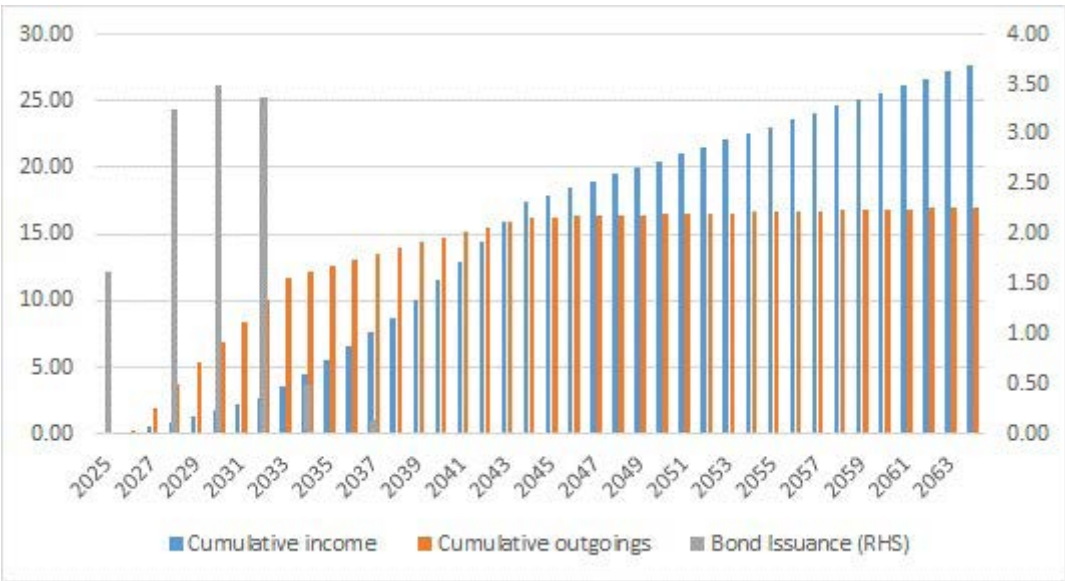
The government has a huge opportunity to fundamentally change the way the UK approaches its built environment – moving away from the piecemeal approach it has pursued for decades and reverting to planned urban extensions and new towns the UK pioneered in the 20th century that were subsequently copied and enhanced by continental European countries post 1945.

Beautiful places can be constructed with higher density housing including sufficient affordable housing connected by excellent public transport and amenities with areas dedicated to expanding existing opportunities to work in high value sectors. These new settlements will not only boost GDP growth but crucially help the UK pay for the high-quality public services the population demands.

Appendix 1: Financial profile of illustrative project

Chart 3 highlights the typical financial profile of these large-scale projects which have significantly higher outgoings in the early part of the project and is only exceeded by income in the second half of the project. The bond issuance is used up front to maintain sufficient liquidity and solvency of the project until it moves into positive cash flows which also needs to be high enough to stand behind the principal and interest payments to the investors.

Chart 3: Financial profile of illustrative Oxford to Cambridge project (£bn)



Source: Author's own work

