Britain for sale? perspectives on the costs and benefits of foreign ownership

Edited by Professor Mike Raco

THE SMITH INSTITUTE

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Published by The Smith Institute

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Introduction: Britain for sale?

Professor Mike Raco, Bartlett School of Planning at University College London

Introduction: Britain for sale?

Barely a day goes by without a new announcement on foreign investment in Britain. Whether it is a French firm vying to build a new nuclear power station and drawing on Chinese funds, or a conglomerate of Spanish or German investors buying up contracts to build and maintain motorways and trunks roads, it seems that investors from all of the world are queuing up to buy a piece of Britain.

No other developed country has such a transparent market for foreign direct investment (FDI). Even though politicians and the public openly call for more "control" over national borders and "sovereignty" in other policy areas, such as migration, the idea that private investors should be restricted in what they can buy and own seems to elude public scrutiny and debate. Successive governments have aggressively sought out sources of foreign investment to fund their development programmes and strategies. The result is that much of the UK's core transport, utility, and strategic infrastructure is now owned by international companies, or sovereign funds, in ways that would have been unthinkable even a generation ago.

But does it matter? Is there anything intrinsically wrong with this unprecedented openness and interdependence? In an era in which borders and attitudes across Europe appear to be tightening and becoming more nationalistic, doesn't Britain's approach open the way for a more progressive view of globalisation and its potential? Isn't this trend simply the extension of a British model of governing, in a country that has long prided itself on being "pragmatic" and making the most of new opportunities as they arise?

As this booklet will argue, the implications of these wider trends are particularly significant for Britain's cities and regions. Infrastructure acts as the life-support system of regional and urban economies. It is as much a collective resource, as a private one. Examining its ownership, finance, and control is not simply a jingoistic concern with the "Britishness" or otherwise of ownership, but a serious questioning of the ability of infrastructure providers and governments at different scales to meet the flexible and changing needs of their citizens and businesses.

High-quality and well-managed infrastructure drives innovation and development. Expensive, inflexible or misdirected investments stifle growth and undermine the competitiveness of places.

This collection of essays on *Britain for Sale?* draws on a range of contributions that make sense of current trends and their implications for the governance of the UK's cities and

regions. The contributions directly address the following questions and seek to trigger a wider discussion of some of the economic, political, and social implications of a growing reliance on FDI:

- What should be left to the market, and what should remain under the direct control and management of state institutions?
- How should governments create the right conditions for increasing levels of private investment whilst ensuring that societies maintain their democratic right to regulate?
- What forms of smart planning and regulation work best in this new environment, both for investors and for the public?
- What skills and capacities do public actors now need to govern and manage global investment flows, and how much power should be devolved to cities and regions?
- How can public policy identify the different types of private investors that exist and build stronger relationships with those who are committed to meeting the UK's future infrastructure challenges?

This introductory chapter sets out some of the wider arguments and contexts within which such debates are being held, before introducing the contributors and their findings. It begins by exploring the openness of the British infrastructure market and recent global and national trends. This is followed by an analysis of what FDI means for the longer-term planning of city and regional economies, before reflecting on the resilience of current models and possible future scenarios.

Trailblazing Britain and why foreign investment matters

In its highly influential report in 2006, *Closing the Infrastructure Gap*, the consultancy Deloitte presented the British model of infrastructure funding as an innovative global "trailblazer". Britain, it claimed, had moved to the "advanced stage" of policy design for public-private partnership working and could be used as a role model by those countries that were "latecomer[s] to the PPP party".[1]

The private finance initiatives of the Major and Blair governments became blueprints for the creation of international funding models, and Britain is still seen today as a world leader when it comes to setting up successful investment partnerships. Allied to this has been a relatively light-touch regulatory environment, in which barriers to investment have been minimal. Investor needs are also protected by a robust legal and contractual system.

1 Deloitte (2006) *Closing the Infrastructure Gap: The Role of Public-Private Partnerships*

The result is that Britain has been particularly successful in attracting FDI. Table 1 shows the total inflows into the UK from 2008 to 2013 and its share of the EU total. In some years it has attracted over a fifth of all the FDI flowing into the 28 member states, a remarkable statistic. Between May 2010 and June 2014 alone, the UK attracted over £18 billion of large-scale equity FDI, with foreign-owned stock totalling over £1 trillion.[2] Over half of this stock is invested in infrastructure schemes and projects.

Table 1: FDI inflows into the UK £m, 2008-2013

	2008	2009	2010	2011	2012	2013
FDI inflows (£ million)	89,026	76,301	49,617	51,137	45,796	37,101
% of EU total	15.6	21.1	13	10.1	21.2	15

So what explains this success? Why is the UK so appealing to investors? Part of the explanation can be found in the approach adopted by successive governments. There has been a restless search to find the right mix of regulation, policy instruments and incentives to meet the needs of foreign investors. Britain is also one of the world's leading advocates of free trade. UN data shows that it is signatory to more bilateral and multi-state free trade agreements, with 167, than any comparable country other than export-driven Germany.[3] Britain is a leading advocate of free trade and is pushing heavily for the conclusion of discussions over binding agreements such as TTIP[4] and the Trade in Services agreement.[5] If agreed, these could expand the scope and scale of FDI and ownership to new heights.

At home, the last decade has witnessed a series of programmes and initiatives, culminating in the creation of the Infrastructure and Projects Authority in January 2016 (see Table 2). Its primary purpose will be to implement the National Infrastructure Plan, a document that sets out a pipeline of projects up to 2021 worth £466 billion – of which £214 billion (66%) will be funded entirely from the private sector, with a further £45 billion (14%) from a mix of public and private sources.

Under government proposals, independent "economic regulators" and long-term contracts will be used to "provide investors with a high degree of predictability about the extent

2 UK Trade & Investment (2015) *Inward Investment Report 2014/15*, p1
3 United Nations Conference on Trade & Development (2014) *World Investment Report*
4 Transatlantic Trade & Investment Partnership, a free-trade agreement being negotiated by the EU and the United States to promote cross-border trade and to harmonise standards and regulatory systems (http://ec.europa.eu/trade/policy/in-focus/ttip/index_en.htm).
5 The Trade in Services agreement is being negotiated between members of the World Trade Organisation. If ratified it would lead to the liberalisation of markets in key producer services, including finance, e-commerce, and licensing (http://ec.europa.eu/trade/policy/in-focus/tisa/index_en.htm).

Table 2: Major strategies and initiatives to support FDI in infrastructure, 2008-2016

Strategy/initiative	Date (on-going unless stated)	Key objectives
National Infrastructure Plan	2010	Annual strategy that "sets out the challenges facing UK infrastructure and the government's strategy for meeting the infrastructure needs of the UK economy. The plan contains major commitments for investment in important infrastructure projects and explains how we're attracting new private-sector investment."[7]
Pensions Infrastructure Platform	2011	Private-sector organisation to give advice to potential investors on how to work with government agencies to establish investment schemes. Emerged "as a result of discussions between the Pensions & Lifetime Savings Association, PPF and HM Treasury regarding the potential for pension funds to increase their investment allocation to UK infrastructure assets" and "the potential for mutual benefit for the government and pension funds from increased levels of investment into UK infrastructure".[8]
Private Finance Initiative 2	2012	A replacement for the existing private finance initiative, first introduced by the Major government in 1993. Under PFIs private companies are allowed to finance, build, and operate public infrastructure under long-term rental agreements (normally 15-30 years). PFI2 represents an attempt to make such agreements more flexible and accountable, given the major criticisms made of poor value for money and a lack of accountability in earlier PFI agreements..[9]
Infrastructure UK	2012-2016	Organisation set up to oversee the implementation of the PFI2 programme and to provide expert support to public-sector negotiators.
Major Projects Authority	2012-2016	Designed to build the capacity of public-sector bodies to project manage and deliver infrastructure. Emphasis on building capabilities, providing expert advice for local and regional actors, and monitoring progress.
Regeneration Investment Organisation	2013	Quango organisation that acts as an "honest broker" to help investors from overseas identify sites and places for regeneration investment.
UK Guarantees Scheme	2013-2021	A £40 billion fund to support private liquidity in infrastructure investment. It involves a financial guarantee from government to private investors to provide certainty over a longer period of time.
National Infrastructure Commission	2015	New quango headed by former Labour minister Lord Adonis to oversee new privatisations and focus resources on building Northern connectivity, London's transport system and energy provision.
Infrastructure and Projects Authority	2016	Formed out of a merger of Infrastructure UK and the MPA. Cabinet Office and Treasury organisation to bring together the expertise, knowledge, and skills within government at managing and delivering major projects. Combines units overseeing project timing, financing, delivery and assurance.

of future profitability in the sector, which is free from political interference... [this has] proved particularly attractive to traditionally long-term investors, such as pension funds".[6] Investors and international construction companies are to be left to "get on with the job" of building new infrastructure, with the expectation that they will be free from the "political pressures" and challenges that can undermine and delay their work.

Within these reforms, core control over spatial development policy has shifted from government departments such as DCLG and Defra to the Treasury and Cabinet Office. This reflects a re-centralisation of authority within Whitehall and a shift in core priorities. Policy is now primarily concerned with setting up arrangements to build infrastructure that will support competitiveness and economic growth.

In Michael Heseltine's terms, there should be "no stone left unturned" in the pursuit of growth.[10] As we will see below, this has become particularly important for the planning and management of cities and regions.

Successive governments have also used the sale of state assets to support FDI. Since the mid-1980s there has been a programme of mass privatisation, with assets and services taken out of public ownership and opened up to buyers from around the world. Alongside these direct sales, PFIs have been used to fund the majority of new infrastructure built in Britain since the late 1990s. Contracts worth over £300 billion have been signed with the private sector to finance, build, operate and maintain public infrastructure. This has included everything from new hospitals, schools, prisons and civil service buildings to road schemes. It is a trend that shows every sign of accelerating as the government promises a further fire sale of the British state and has introduced a reformed PFI programme, PFI2, to encourage further private investment.

The global investment market is also evolving. United Nations data shows that total global FDI inflows rose by 9% in 2013, to $1.45 trillion.[11] It projects that flows could rise to $1.8 trillion in 2016, with larger increases in developed countries. At the same time a new breed of investor is emerging, including government-backed sovereign wealth funds[12]

6 *Ibid*
7 www.pipfunds.co.uk/about-us/
8 National Audit Office (2015) *Lessons from PFI and Other Projects*
9 *Op cit* http://ec.europa.eu/trade/policy/in-focus/tisa/index_en.htm p105
10 Department of Business, Innovation & Skills (2013) *No Stone Unturned: In Pursuit of Growth*
11 United Nations Conference on Trade & Development (2014) *World Investment Report*
12 UNCTAD estimates there are at least 550 state-owned TNCs – from both developed and developing countries – with more than 15,000 foreign affiliates and foreign assets of over $2 trillion. FDI by these TNCs was more than $160 billion in 2013.

– state-owned companies in emerging economies such as China – and investment brokers acting on behalf of pension schemes. Outstanding funds of private equity firms were valued at more than $1 trillion in 2013. Their investment decisions have taken on an unprecedented importance for countries, cities, and regions.

However, the global picture is far from rosy. Sources of investment can be unreliable and private investors often get frustrated with what they perceive to be slow and inefficient public policy making. The *Financial Times* reports that there is an estimated global shortfall in infrastructure spending of $1 trillion, with private investors "looking to invest" but finding a lack of projects with adequate public-sector backing.[13] The United Nations similarly notes that since the financial crash of 2008 the private equity investment sector, including those who specialise in the financing of urban and regional infrastructure, is increasingly "keeping its powder dry" and becoming more selective over where and when investments are made.

It is up to national, regional, and local government bodies to offer a suitable and safe investment climate if they want to be the recipients of funds. Conversely, a failure to establish certainty and confidence could result in the loss of much-needed projects.

Whatever the changing global patterns of investment that emerge in the near future, the trend towards greater and greater dependence on FDI looks set to continue for some time. The implications for cities and regions are potentially enormous and it is to these that the discussion now turns.

Cities and regions for sale?

FDI plays a central role in the government's broader agenda to "rebalance" the UK economy. The *National Infrastructure Plan* claims that new infrastructure will "unlock economic potential in individual regions and ensure that growth and opportunities are distributed across the country". The most recent data on its Investment Pipeline (December 2015) shows that £381 billion has so far been allocated to projects across the UK (see Table 3). Of this, £253 billion, or approximately two-thirds, is defined as "non-regional" spending, including investments such as broadband in England or wind farms that are technically offshore.

There are a relatively high number of projects taking place in the regions, although these tend to be smaller in scale, in part because they consist of local schemes and projects, negotiated by partnerships and providers. Bigger projects are taking place in London

13 *Financial Times* (2015) "Investment", 10 November 2015, p10

and the more populated regions, such as the North West, and these areas also benefit disproportionately from the national investments in schemes such as the HS2 rail link.

Table 3: Infrastructure pipeline 2015 by region of impact[14]

Region	£ billion	Number of projects
UK	149	45
England	39	30
North West	32	76
London	31	61
South West	23	34
Wales	21	16
Offshore	17	18
England and Wales	16	7
South East	12	63
Scotland	10	44
West Midlands	7	39
Yorkshire & the Humber	7	33
East of England	6	31
North East	5	27
East Midlands	4	35
Northern Ireland	1	4
England, Wales and Scotland	1	1

The devolution of responsibilities is an essential component in this broader strategy. Efforts are being made to create region- or city-wide bodies that will act a focus for the attraction and allocation of new investments. City deals and local enterprise partnership-led growth deals feature prominently in the National Infrastructure Plan. A new Regeneration Investment Organisation also exists, and acts as a one-stop shop for potential foreign investors. Both the so-called Northern Powerhouse and the Midlands Engine have recently produced their own pitchbooks of available assets in an attempt to fuel international investor interest in local projects and opportunities.

14 Rhodes, C (2015) *House of Commons Briefing Paper* No 06594, 23 December 2015, p14

But this creates a paradox. On the one hand, local partnerships are to be *empowered* to establish infrastructure programmes that meet local needs. City and regional authorities will be able to use their market power and assets to act like entrepreneurs, working in partnership with private experts and financiers. This, it is claimed, will transform the fortunes of urban and regional economies. The large number of small projects highlighted in Table 3 above indicates that local partnerships are already active and able to get projects moving.

On the other hand, infrastructure investment programmes will be led, to an unprecedented degree, by national Treasury priorities and powerful global investors and financial interests. Greater reliance on these sources could make cities more dependent on market fluctuations, and vulnerable to external shocks, than in the past.

The scale of regional FDI dependence is growing. Table 4 provides selected examples of the ownership some of Britain's most significant airport and energy projects in the regions. It gives detailed evidence of the types of foreign investor which are, by default, becoming key actors in the provision of strategically important infrastructure.

It shows that FDI is being attracted from diverse sources including France, Spain, Japan, Canada, and the UAE. The financial resources available to these non-governmental institutions are remarkable, and unprecedented in historical terms. And whilst such infrastructure may be essential to the economic future of cities and regions, their relative importance to an international investor is of less significance. They represent just one more asset in their extensive, multi-billion-dollar investment portfolios.

The presence of these new players in the regions also raises questions over the capacity of the public sector to manage and co-ordinate their activities in an effective and transparent manner. Future decisions will involve some key trade-offs as local partnerships seek to balance longer-term strategic planning objectives with meeting the day-to-day demands of local electorates. Fundamental choices and decisions will have to be made between competing priorities, including the needs to:

- guarantee **returns** to potential investors *vs.* ensuring that the **risks and rewards** associated with investments are fairly distributed between public and private sectors;
- establish long-term **timeframes** and "certainty" for investors *vs.* ensuring that projects maintain the **flexibility** to adapt to changing needs, conditions, and social concerns;
- insulate private investors from the risks associated with political or regulatory change, such as new taxes or environmental controls, *vs.* maintaining the *right of*

Table 4: Foreign direct investment in and ownership of selected regional UK airports and energy infrastructure projects

Asset	Investor name/ Country of origin	Investor characteristics
Edinburgh Airport	Global Infrastructure Partners	US-based company that manages $15 billion for its investors. Specialises in investments with high entry barriers but long-term returns in OECD countries.
Bristol Airport	Ontario Teachers' Pension Plan (OTPP)/Canada	An pension investment fund of 311,000 members who are working or retired teachers. Has approximately CA$154billion of assets around the world.
Aberdeen/ Glasgow/ Southampton Airports	Ferrovial/Spain	Overall assets are valued at over $70 billion. In total 51% of its investments are now outside of Spain, with UK projects, such as those in airports, making up 21% of its revenues.
Dudgeon Offshore Windfarm, Norfolk	Abu Dhabi Future Energy Company (Masdar)/UAE	A renewable energy company with a stated "mission to invest, incubate and establish a commercially viable new-energy industry in Abu Dhabi and around the world". Its global assets are valued at $65.9 billion.
Westermost Rough Offshore Wind, Humberside (25%)	Marubeni/Japan	The firm's three-year investment plan is to use ¥1.1 trillion to invest in a variety of sectors in 60 countries across the world. Core sectors are energy, infrastructure, and food and lifestyle.
Central Area Transmission System pipeline from North Sea to Teesside	Antin IP/France	Investment company that focuses "solely on investing in infrastructure in Europe, with the objective of generating attractive risk-adjusted returns for investors through a combination of capital appreciation and cash yield". Investors are "blue-chip institutions such as pension funds, sovereign wealth funds, insurance companies, asset managers and banks".

citizens and governments to regulate and to maintain flexibility in public policy; and to
- mobilise **international expertise** in the creation of more robust regional and urban infrastructure, *vs.* the need for continued **democratic oversight** over fiscal revenues and their expenditure.

Local agencies will be required to do this at a time of swingeing austerity cuts and reductions in personnel and resources. As recent research has shown, big metropolitan authorities have faced the deepest cuts[15] and yet it is these same organisations that will need to be tooled up to manage and lead future investment partnerships.

The resilience of the British model?

So given these wider trends, how resilient is this FDI-based British model of infrastructure provision? At the beginning of 2016 there are renewed fears of a global slowdown. The growth of the Chinese economy has started to falter; global trade is down; there is new instability in many BRIC economies, the same economies that have fuelled most of the world's post-2008 growth; and oil-rich states whose sovereign funds have underwritten projects in Britain and elsewhere are seeing a rapid decline in their value and are rethinking their investment strategies.

The upshot of this market instability might be a positive one for the UK and its cities and regions. Britain may benefit from being seen as a safe haven for future investment in a climate of growing risk. However, the opposite may also be true. The financial crash of 2008 led to an earlier crisis in private investment. In 2009 the Treasury had to rescue its PFI programmes from soaring costs by creating a Treasury Infrastructure Finance Unit to give credit to private investors to then "invest" back into public projects.

Could a similar funding crisis happen again? Approximately £45 billion (2014 figures) of FDI project investment in the UK is debt-financed. The most likely outcome of a new global financial recession would be to increase the costs of liquidity, making it increasingly difficult for funds to be raised.

As costs increase, there would also be growing pressure from investors for stronger guarantees from taxpayers and more favourable investment agreements. The importance of infrastructure to cities and regions means that any failures in the delivery of projects could have serious knock-on effects. In such circumstances, more state support would almost certainly be required in order to make projects viable. Those places that have

15 See *Financial Times* (2015) *Austerity Audit* (ig.ft.com/austerity-audit/)

become particularly dependent on FDI will be increasingly vulnerable, as will the effectiveness of their devolved city deals.

At the same time, Britain faces a period of political instability. The impact of a leave vote in the Brexit referendum of 2016 could threaten investor confidence. Ernst & Young's *Attractiveness Survey* of FDI institutions shows that many are concerned about the disruption that Brexit would cause. But perhaps a more significant development is that reliance on FDI means that the views of investors will play a disproportionately large role in future debates over Britain's trading and development policies, whatever the outcome of the EU referendum.

The creditworthiness ratings that markets and investment houses give to the UK will take on greater and greater importance as FDI levels grow. There could also be wider political and strategic implications. Some MPs argue that there is already evidence that the UK government holds back in its public criticism of certain governments for fear that these proclamations may disrupt future relations and threaten investment.[16] In the longer term, the requirement to maintain positive relations with investor-friendly countries could damage Britain's strategic interests and even its freedom of expression.

And finally, the growth of private involvement also has implications for accountability and decision making. The transfer of decision-making powers to financiers and international systems of arbitration threatens some hard-won democratic freedoms. Even free-trade advocates, such as the United Nations, have growing concerns about the influence that behind-the-scenes legal negotiations are having on public policy decisions. Investors, they note, are challenging a broad number of measures in various policy areas, particularly in the renewable energies sector and other public infrastructure fields.

Nearly $1 billion worth of payments under Investor-State Dispute Settlements were made by governments to private investors in 2012-2013 alone. The implementation of new free trade agreements, such as TTIP, would open up the infrastructure and services of Britain's cities and regions to an unprecedented level of market ownership and contract-based negotiations and disputes, further threatening the ability of cities and regions to plan for their future growth.

Britain for Sale? The contributions

The discussion above has highlighted both the remarkable successes of the British model of FDI and some of the potential longer-term risks of too much dependence. Levels of

16 Foreign & Commonwealth Office Select Committee of the House of Commons (2016) *The FCO's Administration and Funding its Human Rights Work Overseas*

FDI have become so significant that the ways in which we have traditionally thought about public spending and policy support for cities and regions may need to be radically re-thought.

It is in this context that the contributions in this booklet examine some of the recent evidence on FDI, its governance and implications. As the chapters suggest, it is important to challenge some of the lazy assumptions on the public and private sectors that feature in much of the policy writing on these topics. Supporters of FDI tend towards the view that public-sector inefficiencies stand in the way of collaborative partnership-building and that political interference is always negative and disruptive. Critics often present the opposite view, based on the simple binary of "public=good, private=bad".

In reality what we are seeing, particularly at the city or regional level, are new types of hybrid arrangements. Later chapters, such as Allen & Pryke's discussion of water ownership, will show that in some cases different forms of not-for-profit ownership are taking shape, and in other instances regulations are forging a strong balance between the attraction of private investment, moderate levels of profit return, and the meeting of broader public interests. In light of recent FDI trends, there is an urgent need to reflect on the types of regulations and interventions that work best.

The opening chapter, by economist, entrepreneur and businessman **John Mills**, tackles these core issues head-on. He argues that an over-reliance on FDI has been damaging for British business and the economy. However, the chapter also points out that the advantages are often exaggerated, and that careful policies should be in place to prevent more regressive practices such as asset-stripping and short-term profiteering. Policy, Mills argues, should be carefully balanced so that it "protects British interests by, on one hand, defending our important companies while, on the other, maintaining that the UK is open for business". He makes a number of suggestions for how this might be done by, for example, looking again at the remit of the Competition Commission or taking a broader view of the needs of the UK economy as a whole and not focusing on the specific needs of any one sector, such as finance.

The discussion then turns to a chapter by **Colin Crouch**, of Warwick University, who discusses and challenges some of the core assumptions associated with debates over foreign ownership. He cautions against simplistic views of national versus foreign investment and uses his chapter to argue that "to problematise foreign ownership as such is to misplace the target and to follow a nationalistic rather than progressive agenda". He discusses how international markets operate and the extent to which it is actually possible to regulate them at the national level, even if governments should decide that

the national origin of ownership is significant. Moreover, Crouch argues that there needs to be a political assessment of the activities and assets that *should and should not be subject to privatisation and market influence*. The aim of democratic politics, Crouch contends, "must be to enter those regimes and seek policy change within them, not protection against them".

The topic of how to regulate foreign investment is taken up by **John Allen and Mike Pryke** of the Open University. Their chapter documents the changing ownership and finance of the water industry, with a particular focus on the building of the Thames Tideway Tunnel. They show what it means for British infrastructure to be converted into an investment commodity, against which private debts can be traded, re-packaged, and sold off to international investors. They also, however, cite the example of recent developments in the UK regions, particularly Wales, in which new types of contract have been negotiated, with FDI coming under tighter regulation by public-sector bodies. They call for a more thoughtful engagement with the new arrangements that are emerging and the need for public bodies to become more skilled in the process of managing and negotiating relationships with the private sector.

The UK housing and property market is one arena in which FDI is having a major impact. **Paul Hunter**, from the Smith Institute, draws on recent evidence to show that whilst in absolute terms, the impact of "foreign" as opposed to "domestic" investment is collectively relatively small, foreign investment in specific types of property is having significant spatial effects. The problem is that foreign buying is concentrated in selected high-end properties, and focused on new-build and "buy-to-leave" properties in the London market. It is therefore helping to fuel spatial inequalities both across the UK and within London and the South East, as it adds to (but does not itself create) problems of affordability and overheating. Such investment is as much a symptom of an existing dysfunctional housing market as a possible cause.

Peter O'Brien, Andy Pike and John Tomaney (Newcastle University and University College London) then examine some of the broader regional implications of FDI, exploring recent developments in the North of England and the ways in which the region is marketed to potential investors. In 2015 a pitchbook of the region's assets for sale was produced by the Treasury to bring potential investment sites to the attention of overseas investors. It was widely shared with Chinese companies and officials on a visit to Beijing by George Osborne in October 2015. The chapter focuses on the "bespoke" arrangements being put in place to support individual projects and, as with Moore and Findeisen's contributions, it explores some of the new policy challenges involved in regulating FDI and what this means for longer-term regional planning arrangements. The authors also

highlight some of the wider political implications involved in selling a region's assets as commodities, and what effects this might have on a region's wider reputation as a place that is open for business.

Niamh Moore, from University College Dublin, explores some of the implications of foreign ownership on British cities with a discussion of the important role of the Irish National Asset Management Agency, a body that was created in the aftermath of the property crash in Ireland in 2007-2008. NAMA has centralised the assets of Irish banks that were bailed out by the Irish state and now seeks to maximise returns on their sale and investment for the Irish exchequer. The majority of their overseas assets are in UK cities and regions. The result is that many of the most important strategic sites for development and new infrastructure are now owned, indirectly, by the Irish state. Moore highlights the implications of these relationships for the governance of cities in Britain and the increasingly complex ownership and property relations that have to be negotiated in order for new infrastructure to be built.

Similar themes are addressed in the chapter by **Francesco Findeisen** (Sciences Po, Paris) and his discussion of the impacts of FDI on the planning system and high-profile developments in British cities. He focuses on the financing of new rail infrastructure in London, using the example of the Northern Line Extension, and brings out some of the intricacies involved in drawing up complex financial arrangements. He documents how new projects get approved, how their detailed contractual arrangements are put in place, what role government agencies play in shaping and regulating these processes, and what the outcomes are for cities and for public policy. Findeisen documents some of the real challenges and opportunities involved in trying to co-ordinate and steer FDI at the local scale.

Chapter 1

How foreign ownership of British companies is damaging the economy

John Mills, Chairman of JML

How foreign ownership of British companies is damaging the economy

Over the last few decades, Britain has sold companies and properties to overseas interests at an unprecedented level, and the rate of sales shows no sign of slowing. Foreign investors now own a massive £1 trillion worth of British companies, according to the latest figures released by the ONS. Over the past five years, overseas buyers have increased their stakes in UK firms by 10 percentage points.

This seems to be roundly applauded by the Conservative government as a statement of confidence in the strength of the British economy. It does, however, say much more about this country's successive governments' willingness to sell off the key parts of the UK economy for short-term and shortlived gain. By continuing to be complicit in these overseas sales, the present government is relegating Britain to slower growth, stagnant employment figures, and constrained productivity.

The increase in foreign ownership

Between 2010 and 2015, foreign ownership of businesses jumped by £167.7 billion, from £760.9 billion to £928.6 billion. It is now almost impossible to walk down the high street without passing many companies which were originally founded and grown by British hands, but whose beneficiaries are now based overseas – and, in some cases, are even foreign governments. The largest overseas holders of foreign-owned British assets are North America, Europe, and Asian-based individuals and institutional investors, at 46%, 26% and 16% respectively.

This is only the peak of a trend that began, slowly at first, over the last decade or two. In 2008, India's Tata Motors bought proud British car manufacturer Jaguar Land Rover; in 2010 the US's Kraft snapped up chocolate maker Cadbury, and in 2006, maritime company P&O was bought by Dubai Ports World. Even Camelot, which runs the National Lottery, is controlled from abroad, owned by the Ontario Teachers' Pension Plan. On top of that, brewery Scottish & Newcastle, Fortnum & Mason, the Savoy Hotel, Asda, Abbey National and O2, to name a few recognisable names, are all foreign-owned and controlled.

The wholesale sell-off of British assets – from companies, to institutions, to infrastructure – is almost universally acknowledged. The ONS made that clear when it wrote that the large increases in overseas ownership since 1994 reflected "the increasing internationalisation of the London stock market and the increasing ease with which overseas residents can invest in UK-quoted shares".

The rise of the pound

Does it matter that British companies are increasingly owned and controlled from abroad? Yes, and for more than one reason. First, the vast sell-off of British assets – and the resulting inflows of capital to Britain – has inflated the value of the pound to unnaturally high, artificial and unsustainable levels. Frittering away all our assets has pushed up the level of our currency to a point that makes the rest of our economy critically uncompetitive on the global market.

Although the value of the pound has recently inched downwards, it is still massively overvalued. You can see this from our underperformance in exports. Despite a 20% reduction in the value of the pound between 2007 and 2009, our trade deficit didn't move. Our share of world trade is now barely 2.5%, compared with 25% in 1950. Over the 2000s our trade deficit in goods tripled, going from £33 billion to a catastrophic £98 billion. In any balanced and healthy economy that would have led to a decline in the pound, making our exports more competitive, but the sales of British assets, and the government's willingness to encourage foreign ownership, have instead propped up its value.

The result is that jobs in industrial heartlands have been destroyed, with manufacturing plants being closed and corresponding knock-on effects on complementary industrial units that depend on robust export performance. This has, in some cases, relegated whole communities to joblessness, poverty and welfare dependency.

This decline in manufacturing, caused in large measure by our inflated currency, is also surely one of the reasons for the puzzling underperformance of UK productivity over the last decade. A vibrant manufacturing base is one of the best – and certainly the easiest – ways to deliver productivity gains; it is much harder to squeeze extra productivity out of services. The pound has undermined our manufacturing base and, as a result, our productivity.

Companies managed in the interest of foreign owners

The impact of overseas sales of UK assets on the value of the pound is by no means the only, nor the most obvious, effect of foreign ownership. There are other, perhaps more painfully obvious, negative impacts.

First of these is that when a British company is sold to a foreign owner, after purchase, the business is controlled and operated in the interests of those people who are living abroad – rather than for the workers, and other stakeholders, based in Britain.

The focus of the management of a foreign-owned company is inevitably in their home

territory. That is where, for example, they will be keen to base their high-level add-on services, such as research and development, which will produce the best-paying jobs and create one of the larger boosts to their own national economy. The home territory of the owner is also likely to be where taxes are paid, and where the company is most likely to focus on recruiting and training the next generation of their management.

This has led to the weakening of experience and skillsets of managers in the UK, especially in industrial industries like manufacturing and energy. The relocation of management outside of the UK has meant that it is more difficult than ever for future business leaders and managers to build the experience and skills they need to run effective industrial companies in the UK. This has surely been one of the biggest contributors to the great skills gap between industrial managers in Germany and Britain.

Profits made on foreign-owned companies are most likely to be paid in taxes to foreign governments. This means that public services such as schools, hospitals and transport systems abroad are benefiting from British-based companies and British workforces, at a time when we so desperately need to inject revenue into our own public services.

It is true that when a foreign company buys a British asset, they must give legal assurances that they will maintain a level of investment and activity in the UK. These guarantees are usually to provide company workers with certainty that the firm will not be relocated. But these guarantees are time-limited, usually to five or 10 years. And despite the best intentions of the management – even if they want to maintain activity in Britain – if their margins come under pressure, they will generally, all things considered, prefer to cut their expenditure in Britain rather than their home market.

The advantages aren't what they stack up to be

The government and commentariat usually defend foreign purchases as a quick and easy way to generate investment in our companies and businesses. When a foreign company makes an offer for a British-owned business, it will usually come with an impressive investment plan to regenerate the business or the industry, and they often say that it will lead to the creation of more jobs. The sale itself will also generate a short-term bump to the company coffers as the British owner is paid off.

But, taken over the long term, these cash injections have little effect on the UK economy, and while jobs may be created, they are seldom long-term or sustainable, especially with increasing globalisation tempting owners to cut costs and relocate elsewhere.

We have become far too used to celebrating this short-term boost in investment, forgetting

that by doing so we are exchanging it for our right to future profitability and the any growth in assets lost to the UK owners. We also, of course, lose control of how the asset or company is managed, and in whose interests it is managed. No matter what we would like to believe, a foreign owner will always put their own personal and national interest first.

Foreign ownership is important but must be controlled

Foreign ownership is not always a bad thing, of course. However, we have to recognise that we have gone too far and that by having a policy of selling our assets to foreign owners as the first option we are storing up incalculable problems, which will inevitably lead to severe economic difficulties.

In my view, the objective should be to limit the number of British-owned businesses being purchased by – and, in some cases, stripped by – foreign interests. Yes, we should still have the flexibility to welcome productive investment in the UK. But it should be a carefully balanced solution that protects British interests by, on one hand, defending our important companies while, on the other, maintaining that the UK is open for business.

It must be clear to most people that over the last two decades we have swung too far in one direction. While Britain has sold off the vast majority of its valuable assets, others governments have taken a much more protectionist approach to their interests. For example, France stopped the sale of a yoghurt company, Danone, on public interest grounds.

How to slow the foreign purchase of British assets

The seeds of the problem we now face descend from the abolition of the Monopolies & Mergers Commission in 1999, a decision taken by the then Labour government. The Monopolies & Mergers Commission could take a view as to whether any acquisition was in the public interest and whether it would weaken the British economy more generally, by harming our strategic interest in an industry or leading to the loss of jobs and investment. However, its replacement body, the Competition Commission, has just one remit: to decide whether any merger and acquisition would reduce competition in the country. The Competition Commission cannot decide on national interest.

In the aftermath of the wholesale sell-off of British assets, and the ever-increasing pace of these sales, the government should now add back into the Competition Commission's remit the public interest test, or place this incredibly important power with another, or new, agency. If we are to take the long-term view, protect jobs and put our national interest and economy first, then there needs to be a dedicated body of people who are looking out for British interests at every turn.

Finally, it is important to remember that if we are to get back in control, we need to accept that a certain sector of our economy will always want more foreign ownership. It is no secret that the sale of these assets has been encouraged by vested interests in the City of London as well as our blind, and sometimes absolute, faith in the market.

On one hand, there seems to be a false belief in the City that ownership doesn't matter, and that companies will be well managed regardless of who owns them. On the other, the City's banks and advisory firms have encouraged, aided and abetted the sale of British assets to access the large takeover fees associated with the deals, which stand at an average of 3% of the deal value.

If we want to ensure that the British economy has a sound future, that there are good jobs across all sectors including manufacturing, and that our national interest will be at the heart of the majority of UK companies in 10 years' time, we do need to accept that our love affair with quick profits and foreign owners is a destructive one. I urge government to think again, rein in foreign ownership and put Britain and our national interest first.

Chapter 2

Foreign ownership and corporate power: avoiding a false debate

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Foreign ownership and corporate power: avoiding a false debate

In an open global economy, nearly all factors of production lose national identity. It is not rational for consumers to buy nationally produced goods if these offer less value for money than those produced elsewhere, unless they see the purchase of goods as primarily an exercise in patriotism rather than the acquisition of products at the price and quality that suits their needs.

In any case, complex goods are unlikely to be the product of only one country. Restricting trade to nationally produced goods has therefore always required state action, whether outright banning, or the imposition of tariffs or other restrictions to prevent or make unattractive the purchase of foreign products. This is the strategy known as protectionism. Its usual result has been to privilege a small number of domestic producers, which are able to charge high prices for poor quality goods. Worse, the erection of barriers against the "foreign" usually implies generally poor relations between the countries concerned, which can have dangerous consequences.

This is the general context behind the desire for open trade, and the appreciation that nationalistic policies on commerce and ownership serve the interests only of national firms seeking captive customers. For that reason, economic nationalism has historically been a policy of certain forms of the political right.

The left has supported free trade, from the role of early British trade unions in the campaign against the Corn Laws in the 1840s to the commitment of Scandinavian and German unions to export competitiveness in the late 20th century. There have been minority currents among state-centralist socialists who tend to see the economy in terms of production under the control of a national state and take little interest in consumers; the Bennite movement of the 1980s was the last main example of this in the UK. They have rarely had major influence, but the sheer volume of foreign capital ownership in the contemporary economy is leading wider circles to question whether there should not be a system of national preference for capital flows, even if openness in trade in goods and services is not being challenged. (Another factor of production subject to such concerns is labour. This becomes the debate over immigration and is beyond our scope here.)

Objections to foreign investment

Why should foreign capital be seen as having problematic characteristics that are not shared by "British" investors (however defined)? It might be contended that local capitalists often identify with their city or country of origin, and therefore behave generously towards

it. Our 19th-century cities contain many examples of the benevolence of local capitalists.

One might reasonably wonder whether something is lost when entrepreneurs are no longer embedded in their cities and countries of origin, but range footloose across the globe. This however concerns philanthropy, not business as such. A British-owned energy firm is not likely to offer more favourable prices to British consumers than a foreign one. But it might make a point of sponsoring various causes, outside the frame of its business activities.

However, are such activities related to the national location of firms' businesses? There is considerable evidence of global, rather than national, philanthropy. Many British cultural and educational institutions have received major support from wealthy "foreigners". Philanthropy, and the search for favourable reputation that sometimes motivates it, has become global. One need only remember that the British branch of the energy firm EDF (which stands for Éléctricité de France) supported the London bid to host the 2012 Olympic Games, while its parent company supported the rival one from Paris.

A national firm is likely to behave differently in its core business than a foreign-owned one only if it is required to do so by restrictions on capital movements. If the market for capital is international, firms active in it will behave the same irrespective of their national origins. Limiting the role of foreign capital would have no effect on the behaviour of investors in the UK if British-owned firms were still active in the global markets, as they would continue to want the same conditions in the UK as they were enjoying elsewhere. Only if they were prohibited from operating abroad would government be able to insist that they adopted certain codes of conduct.

But making investment in British firms and public projects dependent on British capital owners would give tremendous leverage to those owners over public policy. There were some advantages when certain corporations were identified as "national champions", as they were called in France, and exchanged a commitment to maintain employment in their native country in exchange for a privileged relationship with government. However, in the end this led to the maintenance of uncompetitive plants and an unhealthy privilege enjoyed by favoured firms at the expense of others. Few would advocate reconstructing such a regime.

Today, for better or worse, the market shapes the behaviour of its participants, whatever their origins. There is an apparent exception to this in the conduct of certain Middle Eastern and Russian energy-based corporations, and perhaps Chinese banks. However, this is not because of the national origins of those concerned, but because their base is in highly oligopolistic sectors and/or politically favoured activities. This is a problem that would apply equally to British firms in the same sectors.

Reshaping the question

To problematise foreign ownership as such is to misplace the target and to follow a nationalistic rather than progressive agenda. The really important questions are: (i) is it possible to regulate the conduct of internationally mobile capital, wherever its national base (if it even has one); and (ii) should some activities be located primarily outside the market, and therefore not available to private investors, whether native or foreign?

Capital regulation

Imposing some constraints on global corporate behaviour is entirely possible, provided there is enough collaboration among powerful groups of nations. If the countries of the EU, the North Atlantic Treaty Agreement and Japan could agree on the need for various kinds of regulation, they could establish globally binding regimes of conduct for corporations, and for the behaviour of governments in their relations with firms. If corporations need to conform to international standards before their products can be freely traded, and if the regime is adequately monitored, they will comply. The desire of countries to qualify for the global trading regime of the World Trade Organization demonstrates this. The problem is that WTO regulations are concerned solely with the freedom of trade, not with social or environmental concerns.

Something more ambitious is being attempted by the OECD in its anticorruption campaign. There is also the example of how EU product standards have a reach well beyond Europe. Since the EU is the world's biggest single market, firms need to ensure they can have access to it; and having done so, they might as well follow the same standards in the rest of the world. The global economy is not entirely unregulated, and although democracy extends its reach only in a very weak and indirect way, there is such a thing as transnational economic governance.

Richer global standards for corporate behaviour and state-firm relations would reduce the ability of firms to bargain away national standards under the threat of relocation. It could also place a floor under governments' attempts to attract investment through low tax regimes, the main device through which international capital mobility is undermining state capacity and social policy almost everywhere.

The crucial point is that these standards can be achieved only internationally; any stress on a particularly British aspect of the issue threatens to undermine this and to move in exactly the opposite direction to what is needed. When individual governments take the lead on corporate conduct issues, their strong temptation is to do the exact opposite of what is needed, and pursue a beggar-my-neighbour approach, leading to a competitive race to the bottom in the desire to attract mobile capital.

For example, the UK government is seeking to "protect" the City of London from any European regulation on the financial sector. This is not about protecting British high standards of banking conduct, but the opposite.

Commercialising public services

It is irrelevant whether a firm originating in Paris or in London owns a British region's water supply or a chain of care homes. The only issue is whether there are advantages in private firms of any provenance being involved in an activity. Three kinds of advantage are at stake: enabling governments to have access to funds for major projects, reducing the need for taxation; bringing to bear the competitive pressure of the market; and enabling the public sector to access what are often deemed to be the superior management techniques of the private sector.

The public sector can access private funds in a series of ways; privatisation as such is not necessary. One way is simply to issue bonds, enabling private investors to have a share in the earnings from publicly owned entities but not any control. It is surprising that this has been so little used, especially in sectors where competition is difficult to organise. Instead governments have made use of what are now generally seen as the disastrous device of the private finance initiative. Here, a public authority sells an asset (such as a hospital) to a private firm and then leases it back. There is a short-term gain through the injection of capital, but the entity is then left with high lease payments and, worse, restrictions on the use of the asset, which can prevent future adaptation and flexibility.

Some privatisations have enabled something resembling true competitive markets to be established, particularly telecommunications. Others have simply produced private monopolies – such as in water, or most, but not all, railway services. More typically, there have been oligopolies with very weak, sticky competition, as in energy supply, where in order to create something like a market, customers have to be admonished by regulators to spend time checking they have the best deal, and suppliers invent new time-limited special offers to give the customers something complex and confusing with which to work in their searches.

In order to protect the public service nature of many services being offered to the private sector, particularly in health, education and care, government continues to provide services free of charge or at heavily subsidised prices, while the provision is contracted out to private firms. This does not produce a market in the sense understood by economic theory. There is usually a small number of producers, and one customer, the public authority placing the contract. The service consumers are not customers, as they are not choosing and paying in a market. They are merely users.

Does privatisation mean better management?

There is perhaps more purchase in the idea that the public sector could gain from private management expertise. However, that could be provided, and often is, by recruiting managers from the private sector; actual privatisation was not needed to achieve that. But this then raises a major question: are all services alike in being potentially market-tradable, with no losses being incurred by their quality if they are treated in this way?

It can certainly be argued that all services are alike in being able to benefit from improved efficiency, from better ways of working and the organisation of work. These are areas of expertise that have been perfected in the private sector (provided that sector is itself competitive) and from which other kinds of activity, whether public or charitable, can learn.

There are however two problems here. First is the potential tension between managerial and profit-maximising goals, on the one hand, and professional commitment on the other. Second is the collective nature of aspects of many public services, which makes application of the market model of individual customers problematic.

The first problem can be illustrated by two recent cases in the NHS: the proposal by NHS England that general practitioners be offered £55 for every case of dementia that they diagnose; and the practice of several hospital trusts to offer general practitioners financial incentives not to send so many patients, including cancer patients, to hospital for tests. Both are perfect examples of how private management would give employees incentives, in the first case to do a job more effectively, in the second to save costs. But the public reaction to both was negative: medical judgment should not be clouded by financial incentives. Such incentives, it seems, might be the heart of a well-functioning capitalist economy, but some areas of life should be off-limits. Why, and on what grounds? The issue is too complex for us to explore here. The main point is to note that it is a legitimate democratic request that we have such a debate, and somehow try to work out where we want the market to do its work, and where we are worried about its consequences.

The questions raised by "services of general interest" – to use EU jargon for what used to be called public, or social and community, services – are different. Here we are concerned with services, at least parts of which are consumed collectively or have a public goods aspect, and where therefore the market is an inadequate device for allocation, as it depends on individual decision making.

For example, individual parents might feel that their children might gain from being educated and therefore pay school fees. But the wider gains that come from a better

educated population are likely to exceed these individual gains (or at least, parents' perceptions of them). As a result, in nearly all countries with pretensions to modernity, much of education is removed from the market. If it is removed from the market, what is the case for having private firms involved in its provision?

There is room for considerable debate about what interests are perceived to be general enough to justify provision outside the market: military defence, health, social care, broadcasting, museums and art galleries, certain cultural activities? We can develop principles to guide such a discussion, rather than just pick examples, but in the end it is a matter of conflicts among values and interests that have to be resolved through political means.

Political solution needed

If we are dissatisfied with the outcome, we have to work to improve the quality of our democracy, not seek to remove the debate itself from politics. The latter is however what is happening in various international moves to bring as many services of general interest as possible into the market arena. Within EU competition law, member states have the right to declare certain services to be outwith the market, but the court's general presumption in favour of extending markets wherever possible makes this problematic. It might, for example, be difficult for a new government to reverse the willingness of a predecessor to open up areas to competition. And firms can complain to the court that a government is defining general interests too widely.

Matters will become considerably more serious if the proposed Transatlantic Trade & Investment Partnership between the EU and the USA goes ahead. Among the many deregulatory principles embodied in this are several provisions that would enable corporations to challenge governments' reservation of certain issues as coming outside the market order, especially when an incoming government wanted to reduce the market openness of a predecessor.

These issues are often posed as a potential conflict between international forces seeking to impose openness to international capital and national democratic forces seeking to protect areas of public and social policy. This is *not* the issue at stake in the UK government's attempt to renegotiate its relationship with the EU. This is rather – with the exception of the question of immigration – a case of a government wanting to expose its society more fully to global market forces than much EU policy allows.

However, it is how the political left in the UK and elsewhere is likely to see the matter. This is a major mistake. If European and international regimes have the task solely of

market-making, while national politics is responsible for protection from the market or external regulation of it, there is a risk of a major stand-off. The outcome of this would be a supranational level that understood nothing of the limits to and problems created by markets, and which therefore relentlessly sought to impose them.

At present it does seem that EU policy operates in this way, but there have been times when it has been more sophisticated, as when it adopted the concept of "flexicurity" as a modification of its strategy of seeking labour-market deregulation at all costs, or when the Delors Commission established a broad social agenda.

Given that opting out of transnational trading regimes is neither possible nor desirable, the aim of democratic politics must be to enter those regimes and seek policy change within them, not protection against them.

Chapter 3

Offshoring the nation's water

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Offshoring the nation's water

When the 10 regional water authorities in England and Wales were floated on the London Stock Exchange in 1989, a shift in ownership inevitably followed from the privatisation of household water. The public listing of shares in water companies initially created a wide distribution of ownership across the UK population, with preference given to those who paid the water bills. Controls were put in place to ensure that no one individual or company could monopolise the shareholdings, with the UK government retaining a "golden share" precisely to avoid such an outcome.

Once those shares were relinquished by the government in 1994, however, the ownership of the nation's water started to shift abroad, with foreign investors largely attracted by the low-risk, stable returns on offer. Some two decades on, with seven of the 10 water authorities now in foreign ownership, the contrast from the idea of a British shareholding public that drove the early UK privatisations could not be greater.

But it is not simply the fact of foreign ownership itself that marks the contrast. It is the *type* of foreign owner that draws the sharpest difference: the movement into the water sector in recent years of privately run, global financial consortia for which infrastructure is a new and malleable asset class.

The shift in the pattern of ownership towards more consortia-led, global financial institutions has been accompanied by a delisting of water companies and a more opaque ownership structure involving so-called offshore locations and increasingly complex financial practices, none of which, it is fair to say, was foreseen by Ofwat, the industry's regulator. In what follows, we outline the changing pattern of ownership in the English and Welsh water industry, using the examples of the consortia-led Anglian, Southern, Yorkshire and Thames Water to raise issues of accountability, transparency and financialisation. (Scottish Water is publicly owned, directly accountable to the Scottish Parliament.) After that, we spell out how things could be different, in terms of both ownership structure and the treatment of water as an asset managed for the benefit of customers.

Shifts in company ownership

Private provision of household water is not new to England and Wales, although it disappeared from view at the end of the 19th century when water delivery was municipalised, and then, in the 1970s, when it was effectively nationalised in the shape of the 10 water authorities that persist in much the same outline today. Whereas before privatisation, however, ownership and control were local and then regional, today they are thoroughly global and largely unlisted.

Of the 10 privatised water companies, only three remain listed on the London Stock Exchange: Severn Trent, South West Water (under Pennon), and United Utilities, with a shareholding largely confined to institutional investors drawn from banks, insurance companies and pension funds. The public listing allows for a degree of accountability and transparency which is largely absent from the six unlisted, privately run, water companies. The exception is Welsh Water (Dwr Cymru), which is run as a not-for-profit company that has no shareholders, and to which we will return later.

The unlisted companies can be divided into two groups: those that are part of overseas infrastructure corporations owned by wealthy individuals, and those that are part of offshore corporate structures owned by global financial consortia. Table 1 (overleaf) provides a breakdown of the two types of unlisted ownership and their global investor profile.

The first group comprises Wessex Water – owned by the Malaysian conglomerate YTL Corporation, an investment vehicle for its billionaire founder Yeoh Tiong Lay – and Northumbrian Water, owned by Cheung Kong Infrastructure, controlled by Asia's richest person, the Hong Kong-based Li Ka Shing. In contrast, the second group – Anglian Water, Southern Water, Yorkshire Water and Thames Water – are operated through special-purpose vehicles, three of which are registered offshore in Jersey.

Anglian Water is owned by the Osprey Consortium, made up principally of Australian and Canadian pension and banking funds, with the Commonwealth Bank of Australia a key player. Southern Water is under the control of the Greensands Group, in which JP Morgan and UBS (respectively, US and Swiss banking and finance houses), along with Australian pension and asset management firms, are the major investors. Cheung Kong Infrastructure also hold investments in Southern, through Sumaya Investments. Yorkshire Water is owned by the Kelda Consortium, whose main investors include Deutsche Asset & Wealth Management; Corsair Capital, a New York-based private equity firm; and GIC, the private equity arm of Singapore Investment Corporation. Thames Water, the largest of the four companies, is owned by the Kemble Consortium, led by Australian bank the Macquarie Group. Macquarie is the largest investor, followed by Abu Dhabi Investment Authority, China Investment Corporation and, more recently, British Telecom. The remainder of investors comprise Canadian, Dutch, Spanish and Australian pension funds.

The sheer extent of global ownership across the four consortia-led water companies is revealing and may come as something of a surprise to their local customers. What marks them out from the likes of Wessex and Northumbria, however, is not simply the extent of overseas ownership, but their opaque corporate structures and seeming ability

Table 1: Global ownership of England's water companies

	Water company	Investor	Origin
		Overseas infrastructure companies	
1	Wessex Water	YTL Corporation	Malaysia
2	Northumbrian Water	Cheung Kong Infrastructure Holdings	Hong Kong
		Global financial consortia	
3	Anglian Water	Colonial First State Global Asset Management Canada Pension Plan Investment Board IFM Investors 3i	Australian Canada Australia UK
4	Southern Water	JP Morgan Asset Management Challenger Infrastructure Fund UBS International Infrastructure Fund Sumaya Investments Hermes Investment Management Sky Brace Investments Australian Superannuation Funds Retail Employees Super Fund	US Australia Swiss Hong Kong UK Hong Kong Australia Australia
5	Yorkshire Water	Deutsche Asset & Wealth Management Corsair Capital GIC Special Investments Infracapital Investments	Germany US Singapore UK
6	Thames Water	Macquarie European Infrastructure Fund Abu Dhabi Investment Authority China Investment Corporation British Telecom Australian Super Queensland Investment Corporation SAS Trustee Corporation ABP PGGM Alberta Investment Management British Columbia Investment Management Corporation OP Trust	Australia Abu Dhabi China UK Australia Australia Australia Netherlands Netherlands Canada Canada Canada

to financially engineer significant returns for their consortia-led owners over and above profits earned.

Financialising water

In comparison with the unlisted infrastructure companies, Anglian, Southern, Yorkshire and Thames all exhibit complex wedding cake-style corporate structures, with the global owners, the investors that comprise the consortia, at their apex. Below that sit a number of holding companies through which debts, dividends and interest payments on inter-company loans move up, down and across the group structure. Given the 8-10 holding companies that typically separate the operational side of the water business from the owner proper, financial transparency is an obvious concern.

The actual regulated water companies form part of the base of the respective wedding-cake structures, alongside an offshore financial offshoot whose role includes the leverage of debt through securitisation techniques, both to meet initial acquisition costs and to raise further debt by issuing bonds against revenue streams generated by water bills that households have yet to pay. More pointedly, all four water companies have been purchased with debt and refinanced with debt, to the point that around four-fifths of each company represents borrowed monies raised against future revenue. At the time of privatisation, given that all four companies had negative gearing, the extent of the debt which the water companies have been made to bear by their overseas owners is an obvious concern for their investment-grade ratings, particularly as it impacts upon their political rationale: their capacity to invest in sustaining the water network.

That said, the securitisation of debt does have the effect of freeing up value from the underlying asset and having the cash raised from the sale of securities at your disposal. It can be used to invest in upgrading infrastructure and as a means to simplify capital structures by reducing the peaks and troughs of debt repayments, with the efficiencies passed on to customers in the form of lower water bills. The leveraging of debt, however, can also be used for other purposes: namely, to pay a higher shareholder dividend and pay off intra-company loans.

In the case of Thames Water, for instance, their accounts show that the latter purposes rather than the former have more or less consistently been pursued, with the company paying out in dividends more than they actually earn from their cash flows and using the borrowed monies to fund substantial dividends to their investors.[1]

1 Allen, J & Pryke, M 2013 "Financialising Household Water: Thames Water, MEIF, and 'Ring-fenced' Politics" in *Cambridge Journal of Regions, Economy and Society* no 6, pp419-439

Much the same has been shown to be true of Yorkshire Water.[2] Indeed, the pattern of large regular dividends, as Seth Armitage[3] has documented, is typical of the privatised, standalone water companies and is a particular feature of the consortia-led companies that operate on a highly geared basis. Overseas investors have also benefited from high interest loans paid to them by the water companies that they themselves own, with the company debt channelled through offshore holding companies so that interest goes to them tax-free, and has the added bonus of reducing taxable corporate profits in the UK.

The offshore route by which both dividends and company debt travels makes public scrutiny onerous, with disclosure far more limited than required by UK law. In effect, such offshore practices not only mask the ownership structures of the consortia-led firms; they also make it harder to trace the money leaving the UK by such routes and the ability to hold overseas owners to account. The nexus between financialisation and offshore dealings, in that respect, works to place the owners more or less out of reach and thus out of regulatory control when it comes to matters of who has benefited from the privatisation of the nation's water.

Borrowing and finance costs turn on questions of ownership, public or private, local or global. Debt-driven, private finance is only one way by which UK water infrastructure may be funded and, likewise, offshore corporate structures are only one type of route by which water can be financially managed. Things could be different, most obviously if in public ownership, but even if the nation's water remained in less profit-orientated private hands.

Customising water

Returning water to public ownership is often seen as the obvious means to avoid the siphoning off of water profits into private hands and provide a more accountable service. Indeed, an increasingly Europe-wide disillusionment with the privatisation of household water has seen such services brought back into the fold of public ownership across France and Germany, as a process of remunicipalisation has taken hold.[4] Driven, in part, by private-sector failure and the control of assets that local ownership can provide, remunicipalisation offers a more accountable political choice of delivery, but as a strategy it also has to address the issue of finance.

Remunicipalisation leaves unresolved questions of financing (where the capital comes from to build the infrastructure) and funding (the charges levied for the use of the infrastructure).

2 Turner, G 2013 *Money Down the Drain: Getting a Better Deal for Consumers from the Water Industry* (Centre Forum)
3 Armitage, S 2012 "Demand for Dividends: The Case of UK Water Companies" in *Journal of Business Finance and Accounting*, 39, pp464-499
4 Hall, D 2012 *Remunicipalising Municipal Services in Europe* (Public Services International Research Unit)

This is a wider political issue, because – among other things – investors will be looking for a return, and this can only be provided by taxpayers or by users. In the case of water, the issue is about charges to users and does not involve the taxpayer because of the existence of a "regulatory asset base". What remunicipalisation may well enable is much clearer and more transparent control of the processes of financing, the links between charges and investor returns, and fuller control over reinvestment in the water infrastructure.

Utilities, then, are not something conveniently separable from the world of finance, easily retrieved and placed neatly back into public ownership through a one-off programme of renationalisation or remunicipalisation. There are other ways to bring utilities such as water effectively under public control, principally by using, not rejecting, private finance; that is, by tailoring it to the needs of bill-paying households, both in terms of price and future investment. In other words, by adapting private finance to provide water *customised* for citizens.

The privately owned Welsh Water (Dwr Cymru) is a case in point. Welsh Water, as mentioned earlier, is a not-for-profit company with no shareholders yet, unlike its global financial counterparts in the water industry, it has used securitisation to good effect.[5] Rather than use the financing technique to disperse tax-efficient profits globally, they used it to raise bonds to finance their assets and capital investment programmes, and retained the surpluses to reinvest in the water business. As such, the financial efficiencies gained have been passed onto the customer in the shape of an annual "customer dividend" and lower water bills, rather than offshored into the pockets of global investors.

Moreover, because it does not have shareholders or issue equity, a good credit rating matters to Welsh Water's investment performance, and its ability to reduce its gearing has enabled it to raise further investment funds. Indeed, the company's sound use of private finance has met with the approval of the leading rating agencies, earning an A rating (the only such rating in the sector).

Ironically, such stability and predictability were sold by the sector's delisted consortia owners as precisely the qualities that ringfenced, privately controlled water monopolies could offer investors globally. These qualities are evident in Welsh Water's performance and are precisely the characteristics looked for by pension funds and insurance companies as they search for safe outlets for their investment monies.

Thus the opportunity presents itself to establish a *different* type of ownership in the

5 Bayliss, K 2014 *The Financialisation of Water in England and Wales*, Working Paper Series 52, (FESSUD)

English water sector, one that provides investment opportunities to private investors, yet guides such investment monies into utilities that work for customers, not shareholders or their financial intermediaries. The accountable nature of ownership and the question of who benefits can coexist with private finance in a transparent manner, where distributed profits circulate in the local, not the offshore economy.

The political issue, then, does not boil down to some kind of Orwellian equation – "private finance bad, public ownership good" – but recognises that private finance can be used to renew and build water infrastructure and put to work transparently, shaped to meet the needs of a nation's households. The impact of financialisation in and on the everyday has not been well articulated politically in England. But to start to talk about a fight-back in terms of nationalisation or municipalisation is perhaps to miss the point. The task, as we have tried to sketch in terms of just one type of utility, is to politicise the effects of financialisation so that we can *master* private finance rather than be its slave.

To combat shadowy financial practices and evasive offshore dealings is a political task that goes well beyond the scope of the nation's privatised water, but a first step towards sidestepping such unaccountable and opaque structures is to bring ownership within reach of those who can manage the asset for the benefit of customers, whether they be public or private bodies, funded by foreign pension funds and insurance companies or otherwise. Offshoring the nation's water simply makes such a possibility ever more remote.

Chapter 4

The Englishman's castle and the impact of foreign investment in residential property

Paul Hunter, head of research at the Smith Institute

The Englishman's castle and the impact of foreign investment in residential property

If an Englishman's house is his castle, then overseas investment in residential property is tantamount to a foreign invasion. Indeed, public reaction and media coverage has at times mirrored that of a nation under siege from a global elite and footloose capital.

This should not come as a surprise. Unlike foreign investment in general, housing has a personal and cultural dimension, which makes the issue so politically charged. From this perspective, investment is not being made in "property" or "residential units", but in homes and local communities. And it is this element of outsiders buying *their* homes that is so emotive. Yet, despite the strength of feeling that the issue generates, it is worth first asking whether it really matters, before demanding that "something must be done!"

This chapter aims to explore whether foreign investment in property is such a damaging phenomenon – after all, few people call for less investment in their local area. It attempts to untangle xenophobia from owner occupation, affordability and other potential downsides of private investment, whilst also examining what "foreignness" has to do with it (rather than other failings in the housing market and wider questions about wealth, capital and ownership). The chapter also highlights some of the challenges, limits and downsides of globalisation: Who are the winners and losers (including spatially), and how can progressive policies be shaped to address public concerns and ensure equity?

The housing context – regional variations

Foreign ownership is global, but where houses are bought is by its very nature local. And this spatial context matters for where people invest, or want to live, and the reaction to (and sometimes media hysteria around) foreign ownership.

As with much of the economy in the UK, there are wide regional disparities in house prices. Eight years on from the pre-crash peak, average prices have more than recovered and are almost up by 20%. However, the North East is (at the time of writing) down by 6% on its 2008 peak. In London prices are up by around 50%. The regional differences are apparent not just in price growth but also in values. The average house price in the UK is £287,000, but in the North East it is half that (£158,000) and double in London (£531,000).[1]

1 Author's calculations based on ONS, House Price Index, October 2015 (December 2015), comparing January 2008 with October 2015

Such disparities reflect the relative economic strength of different places. But such disparities also cause concerns amongst the public, largely because of the impact of high prices within regions. In London, median house prices are 10 times that of salaries,[2] large numbers of people are excluded from home ownership, private rents are high and strong population growth has placed considerable pressure on the housing stock (including rising levels of overcrowding).

These problems are not, however, replicated across the whole country. And this variance shows in opinion polls. So while 15% of the public view housing as an important issue facing Britain, in London, that figure jumps to a massive 43%.[3] This is inevitably going to shape the political debate within places and intensify the pressure for politicians to act.

The scale of foreign ownership – regional patterns and differences

It is not just prices and concerns about housing which differ by region. The extent of foreign ownership appears to as well. In investment terms this is not surprising, as money follows rising values and decent propositions. When it comes to large investors, scale matters too, so the places where values are high and prices are rising will be the most attractive.

As the Land Registry data (obtained by *Private Eye*) on levels of ownership by foreign companies suggests, foreign ownership is largely concentrated in property hotspots – notably London. Whilst the data does not distinguish between commercial and residential properties, it indicates how dominant prime locations are likely to be. For example, in 2014, half of foreign buyer transactions were in London, and two-thirds in London and the South East. Other hotspots included Greater Manchester (around 8% of transactions), although the average prices paid were considerably lower than in London (£1.8 million against £5.4 million).

This, however, tells us little about purely residential purchases. Research from international estate agents, notably Knight Frank and Savills, does shed some light on the levels of foreign transactions and where it is likely to be invested. For example, Savills have estimated that in 2012, overseas buyers invested around £7 billion in London. According to Smith Institute research, "In 2012 mortgage loans for house purchases in Greater London totalled £18 billion. Overseas investment was equivalent to around 39% of this figure."[4]

Obtaining data on the extent to which this is a phenomenon outside London is very difficult. However, like the data from the Land Registry, the data from Savills on London suggests

2 DCLG Live Table 577: Ratio of Median House Price to Median Earnings by District, from 1997

3 *Ipsos Mori Issues Index*, September 2015. At: https://www.ipsos-mori.com/Assets/Docs/Polls/September15issuesindex.pdf

4 Heywood, A & Hackett, P 2013 *The Case for a Property Speculation Tax* (Smith Institute discussion paper)

concentration in prime areas. So whilst 7% of all purchases in the capital are made by overseas investors, that figure jumps to up to half in parts of central London (ultra-prime parts of London prime).[5] Evidence also highlights the price bracket within which overseas investment is concentrated in London. UK buyers account for around 70% of new-build sales of property worth less than £450,000, but make up only 10% of new-build sales over £1 million.[6] This would therefore suggest that for the country as a whole, activity is concentrated in the top end of the market, largely located in London and a few other hotspots.

Who is buying in London, and why?

Within this headline data on London are significant differences in buyer identity and intentions. Savills is keen to stress that the majority are buying their main homes. However, of the foreign investors in London prime property, 19% are buying a second home and 16% are buying for investment purposes. It has been suggested that there are three main groups of buyers:

- European and North American buyers purchasing for residency or investment purposes;
- OECD buyers from a from a range of non-OECD countries seeking a safe investment – this includes Russia and UAE; and
- investors (often from East Asia) with an interest in rental yield and capital growth who are often attracted to new-build properties.[7]

This list of buyers from different countries also suggests the extent to which investment differs not just by price points but also product, notably the secondary and new-build markets. For example, new-build has higher rates of foreign buyers than resales. And resales tend to be the preserve of UK and Western European buyers. In new-build, Chinese and Asian Pacific investors are more prominent.

The data indicates that overseas investment in housing is spatially concentrated in high-demand areas and more prevalent in new-build purchases. However, that is not to suggest that it cannot have significant impacts on the wider housing market, on levels of wealth and on particular communities.

So what's the problem?

Whilst the data highlights the scale and spatial concentrations of foreign investment, it doesn't explain why it might be a problem. A cursory review of the limited literature

5 Savills *Spotlight: The World in London 2014*
6 Savills *Spotlight: The World In London 2013*
7 McCarvill, P et al 2012 *Affordable Capital: Housing in London* (IPPR)

on the subject suggests six principal concerns:

- impact on affordability;
- empty homes;
- what homes are being built;
- wealth distribution within and between places;
- price volatility; and
- tax avoidance/money laundering.

Impact on affordability
In one sense, the present level of overseas investment in residential property is unlikely to have a significant impact on the UK housing market as whole. Purchases are likely to be concentrated in hotspots, and even then, only 8% of properties bought in London are by overseas buyers. As a proportion of the country's market this is equivalent to little over 1% of transactions.

However, this ignores the scale of investment. Purchases by overseas buyers are overwhelmingly made at the top end of the market, with average purchases in excess of £1 million. Therefore, the £7 billion invested in London prime alone compares with a mortgage market that year of around £150 billion across the UK.[8] That totals 4.6% of what is being bought with mortgages. And in England and Wales, that £7 billion pounds equates to around 4% of the value of all purchases. This also ignores the transactions outside the London prime market. The data from the Land Registry on all property purchases shows that London accounts for around half (and just over half the value) of overseas investments, so the true figure could be higher.

The impact on asset price inflation is, however, going to be most acute in specific markets where purchases are concentrated and prices already high. In central London, prices are many multiples of earnings, making renting (let alone buying) extremely difficult for the vast majority of Londoners. This may have always been true to some extent, but it appears to be spreading out. Indeed, it is probable that this scale of investment is having a significant impact on inner London house prices (the purchases by overseas buyers is equivalent to around a third of the value of all transactions in inner London), and that this in turn is making housing less affordable in a housing market which is already extremely expensive. Moreover, foreign investment has the potential of replacing owner occupiers with investors, changing wealth distribution and denying people the chance of home ownership.

8 Council of Mortgage Lenders "Gross Mortgage Lending £19.9 billion in November" (17 December 2015). At: https://www.cml.org.uk/news/press-releases/gross-mortgage-lending-199-billion-in-november/

Empty homes: second homes and "buy to leave"

Foreign ownership in some ways reflects the extent to which cities are global – how many people from overseas are living, visiting and working in a city. And in many respects this is reflected in the reasons people buy properties, with the majority of overseas buyers purchasing a primary residence because they have moved to a city. Few would argue that those living and contributing to a country's prosperity should be denied the right to buy a home of their own.

However, what many find unacceptable (especially in areas where housing is in such short supply) is those left empty. This can be because they are second homes or because of the "buy to leave" phenomenon.[9] This covers a large number of overseas buyers: around 20% of overseas buyers are purchasing a second home and 15% of buyers are purchasing for purely investment reasons (obviously, not all of these will be left empty). There seems to be little economic benefit to London from people buying a second home which is left empty for most of the year, especially if all they are doing is inflating already high property prices. And the idea of buying a home and leaving it empty purely for financial gain is, to many, exploitative and unfair.

What is being built (and for whom)

With the demand for housing in London far outstripping supply, private investment in housing should be very welcome (after all, much-needed social housing is funded through the international bond markets). However, what is in question is the type of home this investment is delivering. If the homes being built are purely investment vehicles, then they can add little to what the city may actually need – just because there is demand doesn't mean there is a need, or that demand should trump other housing requirements.

It is, of course, important to strike the right balance, and attracting highly skilled individuals requires partly that a city has a decent housing offer. However, if the influx of investment skews what is being built, and for whom, then the house building targets that national and city leaders are so keen to meet lose meaning. If development is geared towards investors, then more luxury flats are likely to be built, potentially at the expense of using the land to build for a wider group of people, including affordable family-sized houses.

This is also compounded by the way in which many schemes are financed. After the crash, off-plan sales were seen as a way of funding development when traditional forms of lending were constrained. However, off-plan sales can discriminate against potential owner-occupiers. Few potential owner-occupiers are likely (or can afford) to buy a home

9 Where investors find it more commercially advantageous to leave a home empty than to let it.

a year before they can move in. So whilst a concordat between the previous Mayor of London and major developers has been established preventing new homes being advertised abroad before they are in the UK, in practical terms this does little to help owner-occupiers. As Sadiq Khan commented during his successful mayoral campaign: "Ambitious young Londoners are rightly fed up with seeing thousands of new homes sold off to overseas investors – many of whom will never live in them – years before they are built."[10]

Wealth distribution between and within places

The issue of foreign investment in new-build property reflects wider concerns about rising levels of private renting and the impact this is having on the wealth divide between households and age cohorts. This has many underlying causes, including undersupply, rising prices, mortgage finance and wage stagnation. However, the influx of overseas investors is arguably making matters worse.

The data on London shows how investors are buying property for rent or as a second home. This additional demand seems certain to affect prices and can squeeze people out of home ownership. Whilst those renting luxury properties or looking to buy in prime locations are unlikely to be on their uppers, it may have a ripple effect on both prices and who can buy. The effect is unlikely to be on the same scale as the impact of the much larger domestic buy-to-let market, but it is an additional push in the same direction, especially in high-demand areas. The type of properties being built and funded through off-plan sales also promotes rent-seeking behaviour, rather than spreading wealth more broadly through home ownership.[11] Added together it has the effect of concentrating wealth in the hands of fewer people, whilst price rises benefit those who already enjoy housing assets (in terms of both higher house prices and higher rental yields).

This is likely to have implications for spatial policy. With such investments concentrated in inner cities, affordable housing is likely to be found in outer areas. If those on lower incomes live in outer areas, local authorities and new city-regions will have to consider how support is provided.[12] It also has implications for the devolution agenda. If the government moves towards the devolution of taxes, including property taxes, this kind of investment is likely to skew tax receipts towards inner-city local authorities (not to mention the planning gain from section 106 deals), leaving less prosperous outer areas with fewer tax receipts to draw on.

10 Crerar, P 2015 "Sadiq Khan: Stop Foreigners from Buying Up London's New-builds" in *Evening Standard*, 11 December 2015

11 Housing assets are more equally distributed than other assets – see Ussher, K, Kumar, A & Hunter, P *Wealth of Our Nation: Rethinking Policies for Wealth Distribution* (Smith Institute, 2014)

12 See Hunter, P *Suburban Decline: A Study on Why City Suburbs Are Becoming Relatively Poorer and the Case for a Suburban Renaissance* (Smith Institute, 2016 - forthcoming)

Bigger still will be the regional impact. This is apparent in the regional disparities between residential stamp duty revenues. In the London boroughs of Kensington & Chelsea, Westminster and Camden (population of around 600,000), the tax take from property sales is higher than the North East, North West, Yorkshire & the Humber, East Midlands and West Midlands combined (population of 25 million)![13]

This gives a stark indication of how fiscal devolution in the UK could work in practice and the potential impact of foreign investment in further widening the economic divide between areas, if safeguards are not in place. Whilst the market will always head to where investors think the potential return is greatest, it is highly questionable whether government should not intervene to militate against the negative consequences (including on labour mobility).

Price volatility

Another potential problem for the wider economy of unfettered investment in housing is on the potential for speculative bubbles. If housing is seen as an asset class to be invested in over the short term, then there is scope for people entering while times are good (or at least better than returns elsewhere), spurring asset price inflation and exiting when returns seem to be on the wane. This has the potential for hot money to potentially increase price volatility, especially in markets where it is highly concentrated.

Mass divestment is constrained by the illiquidity of an asset in a falling market. However, whilst owner-occupiers need somewhere to live, overseas investors are less tied to the UK by jobs and family connections and have the means to move markets more easily. Given the impact sudden house price falls have on the wider economy, such activity needs to be guarded against.[14]

One option would be to impose a property speculation tax. This would make it prohibitively expensive to exit the market if you have invested for short-term gain. Versions of a property speculation tax have operated in other countries, such as Germany and New Zealand, to change behaviour and curb activities which stoke up prices. The tax would also raise revenue which could be invested in new (affordable) housing, and unlike a mansion tax it would distinguish between speculation and home ownership/long-term investment.[15]

13 From Hackett, P 2015 "Guacamole or Mushy Peas? Devo-housing – North and South", presentation to the CIH conference (Smith Institute)
14 See for example Pinter, G 2015 *House Prices and Job Losses* (Centre for Macroeconomics)
15 Heywood, A & Hackett, P 2013 "The Case for a Property Speculation Tax" (Smith Institute discussion paper)

Tax avoidance and money laundering

The last concern about foreign investment is the extent to which it is used for illegal or dubious purposes. There have been concerns that housing has been used to launder money. David Cameron has spoken out against "dirty money" and housing bought "by people overseas through anonymous shell companies, some with plundered or laundered cash".[16] *Private Eye's* investigation also highlighted the high proportion of investment in the UK property market (including commercial property) through companies based in tax havens.

Clearly, using property as a means to dodge tax or launder money is in some cases illegal and always unwelcome. It is time such practices were investigated fully, to establish the extent of the problem and offer some practical solutions. According to *The New York Times*, the Treasury Department is already on the case in America and is due to start identifying and tracking secret buyers of prime residential property. Under the initiative, companies will be forced to disclose the names behind the purchases in an attempt to clamp down on laundering.[17] Action is, therefore, possible; the question is whether recent pronouncements will lead to serious action from the UK government to pursue wealthy criminals.

Conclusions

The current concern about overseas investment in housing in many respects mirrors a wider unease around the winners and losers of globalisation. Whilst this clearly should not slip into lazy xenophobia, there are concerns about the downsides of capital flows, which also has subnational spatial impacts, and implications for local and regional governance.

Many of the these implications and impacts are trends which reflect domestic ones – read overseas investor for buy-to-let landlord, or empty homes of global jetsetting elite for a London banker's holiday home in Cornwall.

Furthermore, the scale of foreign investment is at present relatively small. And combating foreign ownership of residential property is unlikely therefore to solve any of these problems (or indeed, the housing crisis). But foreign investment does appear to be deepening the downsides of the current UK housing market and amplifying the risks in an already dysfunctional market. It could also, with the current move towards greater fiscal devolution, further exacerbate the wealth and tax divide between places as well as having implications within cities about where people can afford to live.

16 Wintour, P 2015 "David Cameron Vows to Fight Against 'Dirty Money' in UK Property Market" in *The Guardian*, 28 July 2015

17 Story, L 2016 "US Will Track Secret Buyers of Luxury Real Estate" in *The New York Times*, 13 January 2016

And it is this last point which perhaps causes the most angst and emotional outrage. Unlike other assets – commercial property, for example, has far higher rates of foreign ownership – housing is not purely a private consumer good (and is a classic positional good). As such, despite the erosion of the stock of social housing, housing is still a political issue and a public good (often treated as such through the tax system and other subsidies), because it concerns individual's homes, where people live and our sense of belonging.

It is important, therefore, to question whether the right balance has been struck. For example, does the tax system reflect how much economic benefit there is to foreign ownership of second homes? Do the economic benefits of people investing in the UK and spending money in restaurants once or twice a year when they visit outweigh the negatives of price inflation and the inefficient use of an asset?

Of course it is extremely difficult to regulate or tax empty homes. But other measures, such as the recent decision to increase stamp duty for second homes and overseas investors, could help to dampen demand. However, in truth housing market movements and exchange rates will have a greater effect, unless taxes rise to levels seen in Hong Kong and Singapore (where stamp duty is 15% for foreign buyers).[18]

This chapter has tried to set out the potential downsides of foreign ownership but the true impact, including potential benefits, is unknown. There is a strong case, therefore, for the new Mayor of London and new city mayors to undertake reviews of the impact of foreign investment in housing on prices, tenure and the wider economy. There is also a case for national government to examine whether a property speculation tax could help reduce market volatility. Lastly, there is a case for examining how the planning system could help to ensure that foreign money does not dictate what is built locally.

Of course, investment brings benefits to local people and communities, and foreign investment in housing may not be as large in scale or scope as that in other assets. However, the issue acts as perhaps the most immediately recognisable and emotive example of what angers the public about overseas ownership and free-flowing global capital.

It is, therefore, incumbent on local and national policy makers to listen to these concerns, unpick the good from the bad and strike the best deal for citizens, rather than just for investors.

18 Savills 2014, *op cit*

Chapter 5

Beyond the northern pitchbook

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Beyond the northern pitchbook

If Chinese investors look outside the South East of England, they will also find many attractive investments. The North of England is of increasing economic importance to the UK, but it is also fast becoming a hub for investment from innovative global companies, such as Siemens in Hull and Nissan in Sunderland.

- Lord O'Neill, Commercial Secretary, HM Treasury, writing in a foreword to the *Northern Powerhouse Investment Pitchbook*[1]

The financialisation of infrastructure and urban development is a growing phenomenon, ranging from the privatisation of ownership alongside the financing, operation and maintenance of infrastructure through to more speculative investments seeking rents from the appreciating values of land and property assets.

Governments and private actors are exploring – and in some cases being compelled – to adopt (more) financialised practices and mechanisms in an attempt to leverage new capital. But while financialisation – defined as the growing influence of capital markets, intermediaries and processes in economic, social and political life – has provided a fertile environment for a range of private and quasi-private actors to widen and deepen their engagement with the governance of urban infrastructure investment, governments are also retaining a pivotal role at international, national and subnational scales.

In particular, the territorial politics of city-regionalism, which has become a significant spatial unit of governance in a decentralising UK (and especially England), are increasingly embedded in national and international financial flows.[2] Infrastructure has long been viewed as a public good or service with high capital requirements, long time horizons, and close associations with statutory planning, property and land rights issues that require consideration, negotiation and often government intervention to resolve. In addition, many major urban infrastructure development schemes involve substantial financial risks during construction, which only national governments are either able or willing to bear and underwrite.

Yet financialisation and the transformation of infrastructure into an asset class in the international investment landscape are under way, propelled by the growing overlap in interests between state and financial institutions.

1 UK Trade & Industry 2015 *Northern Powerhouse Investment Pitchbook*, p3
2 Jonas, AEG 2013 "City-regionalism as a Contingent 'Geopolitics of Capitalism'" in *Geopolitics* 18 (4), pp284-298

In this chapter, we reflect upon the growing clamour for international investment in UK urban infrastructure, development and governance. We suggest that the UK government, in partnership with city and city-region administrations, has embarked upon an approach whereby different instruments are being deployed at pan-regional, city-regional and local scales. Either in isolation or as part of a package of measures, such practices range from outright privatisation to new public-private partnerships, financialised mechanisms and taxpayer-backed loan guarantees, and include the recent active courting of Chinese and Middle East sovereign wealth investment and state-owned banks and infrastructure providers.

To date, the individual and collective merits or otherwise of each of these methods has lacked close scrutiny, especially given their potential impact (positive and negative) upon urban governance, their long-term and path-dependent nature, and the ramifications for the preparation and implementation of local and city-regional spatial and economic development strategies. Such developments are unfolding against the background of a high-profile, competitive and "deal-based" decentralisation agenda being rolled out in England, illustrated by initiatives such as city deals, devolution deals and the "Northern Powerhouse".

In this contribution, we offer some initial commentary and analysis of the opportunities and challenges presented by recent developments, and outline suggested pathways for future lines of inquiry. We pay particular attention to the implications for the North of England, which have received the least scrutiny to date.

Pitching for success?

As a longstanding and integral element of the capital stock in the economy, the critical importance of infrastructure to productivity and output growth has grown in the context of globalisation, climate change and the challenge of sustainability, technological advances and shifting social demands. The global financial crisis and economic downturn have drawn attention to the role of infrastructure renewal and development in economic recovery and stimulus. New and adapted funding and financing models are emerging, shaped by the "financialisation" of infrastructure as an alternative asset class.

Fiscal consolidation and austerity have reinforced the efforts of governments, including the UK, to reduce expenditure and indebtedness, attract private-sector and international state capital, and reduce taxes to stimulate economic activity. The central dilemmas in this evolving context include how infrastructure will be funded and financed, and how it will be governed, planned and regulated, given uneven state and institutional restructuring and growing moves toward decentralisation and devolution.

Against the background of rising infrastructural development and renewal demands, and growing investment gaps highlighted by the World Bank and Organisation for Economic Co-operation and Development, there is increasing recognition of the political and financial power and influence of China. In the aftermath of the global financial crisis, subsequent recession and the evolving Chinese development model, new opportunities are seen for countries, such as the UK, to attract higher levels of Chinese investment.

The UK government has hitched itself firmly to Beijing in an attempt to secure "first mover status" and attract greater investment at a time when China is looking to invest more of its domestic savings abroad and the UK is reducing public expenditure. The UK government signalled its intention to build new strategic economic partnerships with China by becoming an early signatory to the newly created Asian Infrastructure Investment Bank. The Chancellor of the Exchequer, George Osborne, and HM Treasury Commercial Secretary Jim O'Neill have also sought to link the perceived opportunities accruing from the rise of the Chinese economy to the creation of the Northern Powerhouse.[3]

Pinsent Masons has estimated that the UK's share of total Chinese outbound investment will rise from 3.7% during the period 2005-13, to 8.1% over the period 2014-25, and that annual investment flows from China to the UK will rise to £30 billion in 2025, with over half directed at real estate (mainly in London) and infrastructure.[4] With an apparent glut of global capital waiting to invest in UK infrastructure, the UK government is keen to portray the country as being open to foreign investment and ownership:

I know some people look at foreign companies investing in our businesses, financing our infrastructure or taking over our football clubs and ask: "Shouldn't we do something to stop it?" Well, let me tell you, the answer is no. One of Britain's unique selling points is its openness, and this openness is a vital part of how we ensure our country is a great success story in the global race. Foreign investment creates wealth, jobs and growth. And far from weakening our industrial base, that investment actually strengthens it.

- Prime Minister David Cameron MP, speaking at an Islamic Investment Conference, October 2013

President Xi Jinping's state visit in October 2015 presented the Cameron government with the opportunity to cement the UK's blossoming relationship with China and its capital surplus. A reported £40 billion worth of deals were claimed to be signed during

3 Stewart, H 2015 "Everyone Wants to Decouple from China – Except Osborne" in *The Guardian*, 27 September 2015
4 Pinsent Masons/Centre for Economics & Business Research 2014 *China Invests West: Can Chinese Investment Be a Game-changer for UK Infrastructure?*

the visit, and included Chinese state-owned enterprises agreeing to take a one-third stake in the £24 billion Hinckley Point nuclear power station project, in return for a fixed energy price (that will itself provide long-term revenues for investors) and underpinned by UK government and regulatory guarantees.

Leveraging government power

The UK government is using the power of the UK state and its sovereign balance sheet under certain, specific, controlled conditions to provide guarantees to leverage international private and/or state investment. This model is being used more readily, for example, for the Northern Line London Underground extension development at Nine Elms, Battersea. The UK Infrastructure Guarantee Scheme, which has a limit of £40 billion in guaranteed lending, provides stronger protection to lenders than comparable European state schemes, which themselves provide credit enhancement, but not a full sovereign guarantee of principal and interest. To date though, these facilities have been used primarily to support investment in London.

Conceptually, the infrastructure guarantee scheme is an example of how the UK government is reworking the role of the state. Despite record low interest rates and a strong credit rating, the UK government is unwilling to borrow directly from international capital markets to invest in infrastructure – despite growing evidence that it provides a lower cost of long-term capital, and that the cost of servicing private finance debt is approximately double that of government debt.[5]

However, if government departments and local authorities have seen their budgets cut and consequently have insufficient allocated resources to fund the initial construction of an infrastructure project, or insufficient revenue streams to service any borrowing for capital investment, then private finance is configured as the only option for investment. Furthermore, the UK parliament has legislated for George Osborne's new "fiscal charter", ruling out government borrowing for investment after 2019, which means that capital infrastructure spending will need to be resourced through the off-balance sheet borrowing of foreign investment and/or private finance initiative-type deals.

The ultimate beneficiaries from the UK government's approach will be private financiers, sovereign wealth funds and foreign state-owned enterprises, all of which will enjoy ready access to a large, open and stable infrastructure investment market and the potential for steady and lucrative returns. Ultimately, the long-term costs of paying back the higher price of investment will be borne by UK taxpayers or UK consumers.

5 See, for example, National Audit Office 2015 *HM Treasury: The Choice of Finance for Capital Investment*

UK government liberalisation and austerity is accelerating the process of hollowing out UK ownership of critical infrastructure assets and firms. Overseas investors are buying more British companies than the UK is buying abroad – by a ratio of more than two to one – and the associated flows of income abroad are contributing towards the UK's widening current account deficit. This pattern of capital flows is undermining pledges made in 2011, by George Osborne, to rebalance the British economy sectorally and spatially through investment in UK capital stock and a "march of the makers".

While foreign investment could be used to help de-risk domestic infrastructure planning and development, some have questioned the strategic wisdom of allowing such ready access to long-term and stable revenue streams for international companies and profits from UK infrastructure flowing abroad.[6] The question is whether increasing foreign investment in UK infrastructure and property assets, which come attached with limited influence and control over their use and income flows, represents a new type of branch-plant economy but without the associated direct and indirect job creation.

External control, profit repatriation and extractive infrastructure business models are the hallmarks of such a situation. Alternatively, strengthening relationships with a country that is moving strategically towards a consumption-based model of development (and is reducing fixed capital investment at home), but still has a plentiful supply of capital in reserve, could help to improve the UK's built environment. This circumstance also presents UK manufacturers with new opportunities to improve their global ranking in export performance to China by creating and building new export markets as the demand from the Chinese population for foreign goods and services increases.

Infrastructure investment is an important driver of economic growth and productivity – particularly at city-region and local levels. However, where infrastructure was once seen as the key device for integrating physical elements of the city and its local population, successive waves of infrastructure privatisation and development financialisation have delivered a splintered form of urbanism.[7] Consequently, local governments now need carefully to consider and rethink what infrastructure means in today's urban context and examine the criteria for deciding what infrastructure should be provided, and in what form, as well as who should provide it, who should pay for it, and who should operate it.[8]

6 Localis/UK Municipal Bond Agency 2015 *Municipal Bonds: What Will They Mean for the UK?*
7 Graham, S & Marvin, S 2001 *Splintering Urbanism: Networked Infrastructures, Technological Mobilities and the Urban Condition* (Routledge)
8 O'Neill, P 2010 "Infrastructure Financing and Operation in the Contemporary City" in *Geographical Research* 48 (1), pp3-12

In some cases, the financialisation of infrastructure has led to major consequences for local city governance, spatial planning and economic development. Cautionary international experiences abound. The now notorious agreement that saw Chicago's parking meter operation leased to international investors for a 99-year period restricted city authorities from being able to undertake strategic planning and certain local transport infrastructure developments without incurring punitive financial penalties.

Regions seek their share

In a highly competitive global economy, UK cities are being compelled to join their counterparts (and rivals) overseas in seeking new forms of private and sovereign wealth investment. Branding and marketing are crucial elements in the trade and investment toolkit of the prospective seller, with the Northern Powerhouse given official prominence by the UK government as the international brand for the North of England.

In relation to the size of the economy, the UK attracts over five times more sovereign wealth investment than the United States, and the UK government is keen to see this increase. However, there are markedly different spatial contexts and outcomes between investment in London and investment in other UK cities. The scale of international investment in London dwarfs the levels of investment elsewhere, with investment in London real estate and property a major attraction, although some sovereign wealth funds are beginning to venture outside London and into non-traditional investments (Pinsent Masons/CEBR 2014).

In 2013, the UK government established the UK Trade & Investment Regeneration Investment Organisation, and gave the body a remit to promote UK urban infrastructure and development projects to overseas investors. In July 2015, delegations from Leeds city council, Manchester city council and the Greater Manchester combined authority joined David Cameron on a trade mission to Singapore and Malaysia, seeking new investment into the North of England, while a group of Northern core city local authority leaders accompanied George Osborne and Jim O'Neill on a trade mission to China in September 2015, where the Northern Powerhouse pitchbook received its first public airing.

Outside London, Greater Manchester stands out as having attracted significant recent foreign investment in infrastructure. In 2013, the Beijing Construction Engineering Group agreed a joint venture with Manchester Airports Group, Carillion, and the Greater Manchester (local government) Pension Fund for a new £800 million development at Manchester Airport, known as Airport City' which it is hoped will create up to 16,000 new jobs. And in 2014, Manchester City Council agreed a £1 billion project with Abu Dhabi United Group – the owners of Manchester City Football Club – to build 6,000 new homes in east Manchester.

These deals pose a series of questions about the geography of, and process for, attracting sovereign wealth and international private investment into the North of England, and, in particular, the Manchester City Region. First, how has Manchester managed to gain an advantage ahead of its fellow Northern Powerhouse cities and city regions? Is Manchester's apparent success the result of distinct leadership and city region governance arrangements, or is it more a case of being able to demonstrate the ability to generate commercial returns?

Second, what are the implications for infrastructure beyond the urban cores of northern cities? Is there a possibility that regressive forms of provision could create or exacerbate the pattern of winners and losers within and between regions and localities in the North of England?

Third, how should and could local authorities in Greater Manchester and elsewhere, on the back of reduced local institutional capacity, address some of the complex implications of these investment models, given that such approaches look set to continue for the foreseeable future, and perhaps even widen and deepen?

Finally, what will happen to these investments if and when China, as the main recent economic driver of the global economy, finds itself needing more hard currency to resolve its own domestic challenges presented by an over-indebted local government sector, fragile informal banking sector and the oversupply of urban residential properties?

The search for new public and private funding and financing sources and models, and governance arrangements for infrastructure and urban development projects and programmes, is leading to complex ownership structures and bespoke consortia. UK cities and local governments are being encouraged to compete to attract sovereign wealth investment, and are therefore being drawn into high-level international relations, as the UK government conforms to the concept of "nation-states increasingly sharing sovereignty, both with other states and with supranational and non-governmental institutions. This is partly due to a long period of economic and financial globalisation, which has undercut territorial notions of sovereignty."[9]

The unknown, at this stage, is whether the public hawking of the North of England and its assets around the globe (and especially to China) – a highly political tactic – will bear significant fruit. Only time will tell whether this entrepreneurial and risk-taking approach to future city growth and governance, spatial rebalancing and infrastructure investment will prove a success or a failure.

9 Dixon, A & Monk, A 2011 "Re-thinking the Sovereign in Sovereign Wealth Funds" in Transactions of the Institute of British Geographers 37, pp104-107

Chapter 6

Ireland's National Asset Management Agency and the British property market: disposing of crisis

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Ireland's National Asset Management Agency and the British property market: disposing of crisis

Introduction

A watershed year for the global economic system, 2008 also marked the demise of what had been broadly heralded as the "Celtic Tiger" economic miracle, as a triple crisis (financial, fiscal and banking) took hold in Ireland. Through the early 2000s, much of the "growth" had been sustained by a speculative property bubble, facilitated in part by generous mortgage relief.[1] The easy availability of credit, coupled with low interest rates and fiscal incentives for property development, which had long run their course, fuelled the construction boom: in Ireland, at its peak, the number of houses completed was somewhere between 33% and 50% of the number of homes being built in the UK.

Whelan has calculated that "the total stock of mortgage loans in Ireland exploded from €16 billion in 2003:Q1 to a peak of €106 billion in 2008:Q3, about 60% of that year's GDP".[2] A growing dependence on consumption-based taxes became apparent, with property-based taxes accounting for 20% of all Irish tax revenue in 2006. By the late 2000s, property supply overshot what was required, the market stagnated, and credit was closed off.

Rather than relying on deposits, banks had engaged in high-risk practices, borrowing short from the international money markets to lend to long-term projects, leaving the sector exposed when the global financial crisis and credit crunch hit in 2008. In response, the Irish government in September 2008 issued a blanket guarantee of the Irish domestic banking system in an effort to stem the withdrawal of large deposits and help facilitate capital raising.

In early 2009, Anglo-Irish Bank was nationalised and three other banks recapitalised. None the less, the scale of their exposure was such that while loans made to property developers remained on their books, domestic banks could not raise funding nor stem capital outflows. In an effort to address the critical uncertainty regarding the banks' exposure to property-related loans and facilitate the recovery of the sector, the government announced the establishment of the National Asset Management Agency in an emergency budget in April 2009.

The National Asset Management Agency

NAMA as an asset resolution initiative, and effectively operating as a "bad bank", was announced in an emergency budget in April 2009 as one initiative to tackle the calamitous crisis in the Irish

1 Kitchin, R, O'Callaghan, C, Boyle, M, Gleeson, J & Keaveney, K 2012 "Placing Neoliberalism: The Rise and Fall of Ireland's Celtic Tiger" in *Environment and Planning A*, 44(6), pp1302-1326
2 Whelan, K 2013 "Ireland's Economic Crisis: The Good, the Bad and the Ugly". Paper presented at Bank of Greece conference on the Euro Crisis, Athens, 24 May 2013

banking system. With the NAMA Act passed in November, it officially commenced operation in December 2009 and began the process of transferring property loans from five main banks. A master special-purpose vehicle was created with the approval of the European Commission and Eurostat – National Asset Management Agency Investment Ltd, 51% of which is owned by private pension investment funds.[3] NAMA debt is not counted towards national debt, but senior debt is a contingent liability by virtue of the bank guarantee scheme. NAMA's primary objective is to redeem all senior and junior debt, generate a surplus for the taxpayer after operational costs and obtain "the best achievable return for the State on the assets it has acquired".[4]

Once established, 12,000 land and development and associated loans totalling €74 billion (face value) were transferred to NAMA at an average discount of 57% – paying €31.8 billion, €30.2 billion of which is guaranteed by the Minister for Finance, in return for bonds that gave the banks immediate access to capital (via the European Central Bank). These loans had originally been issued to 780 debtor connections and were secured by 60,000 individual properties.

While the primary focus of NAMA's activities is within the Republic of Ireland, Irish banks had been lending for property investments overseas as well as to foreign-based developers and investors. When all the loans had been transferred at the end of 2012, NAMA found that a significant amount of its underlying security was based overseas (Table 1).

Table 1: Geographical breakdown of property-securing NAMA loans

Location	**Acquisition value of property, €bn (Nov 2009 acquisition values)**	%	**Remaining portfolio, 30 June 2015 (projected disposal value)**	%
Republic of Ireland	17.5	54	11.1	70
Britain	10.9	34	3.4	22
Northern Ireland	1.3	4	0*	0*
Rest of world	2.7	8	1	6
Non-real estate	~	~	0.3	2
Total	32.4	100	15.8	100

* Small volume included in Britain here, but most of the portfolio disposed through Project Eagle

3 This is a technical arrangement only as NAMA retains a veto, with little or no involvement by private investors in decision making.
4 NAMA "Our Work". At: https://www.nama.ie/about-us/our-work/

Given that overseas markets, especially Britain, were performing well since the acquisition, a strategy was adopted of disposing of foreign assets as quickly as possible to generate cash and allow the Irish market time to bottom out and recover. This instrumentalisation of spatial difference to achieve particular political-economic goals has been a central feature of the transformations during the recent financial crisis.[5] Comparing the geographical breakdown of the original loans transferred with the most recent data (June 2015) illustrates the outcome of that strategy, with most of the remaining portfolio (70%) located in the Republic of Ireland.

NAMA's activities in Britain

Some of the loans transferred to NAMA had been held by British developers which had borrowed from Irish banks, but during the boom years Irish property developers had extended their activities and particularly focused on large-scale developments and trophy acquisitions in Britain. With all loan transfers complete, it emerged that over a third of the property securing them was in Britain, with a significant concentration in London and the South East.

British-based assets were dominated by office and hotel investment property (Table 2). For example, some of the most prestigious hotels in London, including Claridge's, The Berkeley and The Connaught, were included in the portfolio, as were the Battersea Power Station, the Odeon cinema site on Leicester Square and iconic landmarks including Hamley's toy store on Regent Street and the Citigroup Tower at Canary Wharf.

Table 2: Region and type of British-based assets securing loans transferred to NAMA (as at 31 December 2012)

Geographical region	%
London	64
South East England	9
Midlands	13
Wales & SW England	3
Scotland and North of England	11

Asset type	%
Land	17
Development	12
Residential	12
Office	20
Retail	11
Other investment	11
Hotels	17

5 Christophers, B 2015 "Geographies of Finance II: Crisis, Space and Political-Economic Transformation" in *Progress in Human Geography, 39*(2), pp205-213

As a core element of NAMA strategy was not to dump property into an already collapsed market in Ireland, from 2010-2013, loan and asset sales activity was heavily dominated by the British, and particularly London, market, which had been much less adversely affected by the global downturn. During this period, London assets comprised 60% of total NAMA disposal receipts, with the rest of Britain accounting for almost 13%. These disposals were important in enabling NAMA's strategic objective of redeeming 25% of its senior debt by the end of 2013.

To the end of July 2015, NAMA had completed disposals worth €23 billion, 54% of which had come from the British market (Table 3). A sizeable cohort of proceeds in the first 6 months of 2015 was associated with "Project Ace", representing a continued de-risking of NAMA's London portfolio. Project Ace was a refinancing of London land and development assets, reportedly in the order of £450 million, by a joint venture between the original developer, Ballymore Group, and Eco World Investment Company.[6]

Table 3: Geographical segmentation of NAMA asset disposals (%)

	2010-2013	2014	2015 year-to-date (end July)	Since inception
London	60	13	31	39
Rest of UK	13	20	10	15
Dublin	11	30	34	21
Rest of World	8	9	10	9
Rest of ROI	5	17	14	11
Not an asset sale	2	1	1	1
Northern Ireland	1	10	0	4
Total	100	100	100	100

Although the market in the Republic of Ireland, and particularly Dublin, has shown a significant recovery in the last 18 months (ROI transactions increased from €2 billion in Q4 2013 to €7.4 billion at the end of June 2015), 22% of NAMA's remaining portfolio is located in Britain and heavily concentrated in London. While the dominant strategy of NAMA has been to sell overseas assets, in order to both exit foreign jurisdictions as quickly as possible and generate cash to redeem senior debt, it has also strategically

6 O'Halloran, B & Reddan, F 2015 "Ballymore Moves Closer to NAMA Exit" in *The Irish Times*, 14 Jan 2015. At: http://www.irishtimes.com/business/construction/ballymore-moves-closer-to-nama-exit-1.2064822

committed development funding to some larger projects in order to drive value and enhance the return to Irish taxpayers.

Why NAMA matters in a British context

Given its genesis, NAMA represents a relatively unique angle in the "Britain for Sale" story. Unlike other overseas actors, such as sovereign wealth funds, NAMA has a relatively short-term focus and is actively working to delever itself from the UK market. Assets are being disposed of in a phased manner, and while some strategic decisions have been made around investment opportunities, there is little evidence that NAMA is 'gaming' the UK market. Indeed, some Irish media have criticised NAMA for selling British assets "too early".[7]

Broadly speaking, the activities of NAMA have brought a range of benefits, particularly to London, detailed below:

1. Active and robust engagement with developers has *unlocked the development potential* of key sites, for example Nine Elms on the South Bank in the borough of Wandsworth. Much of the area had been vacant, particularly since the closure of the power station in 1983, and land had been hoarded to facilitate the assembly of a larger landbank. NAMA held security over a very large part of the area, including the Battersea Power Station, and through varied individual strategies of site sales, planning advancement and selective development financing, facilitated the large-scale transformation now under way. For example, the provision of development funding to complete Phase I of the Embassy Gardens site, along with the sale of the power station to new investors, generated the momentum that has opened up a significant new part of central London.

2. Provision of *completion financing* for projects in east London. NAMA inherited loans on significant landholdings within a concentrated area of the Isle of Dogs and the wider London Docklands. A similar strategy to that for Nine Elms was followed, being to facilitate planning enhancement and selective site sales and/or development financing through approved developers. Such activity completed developments which, in certain instances, could have lain vacant, but none were in a similar position to the "ghost estates" around Ireland. In this regard, NAMA has been facilitating residential development in what was and is a constrained London market, in terms of new supply. One project, London City Island – which will deliver 1,700 new apartments as well as a home for the English National Ballet and commercial

7 Curran, R 2014 "NAMA's €22bn Sale of the Century But Is It Too Soon?" in *Independent*, 18 Feb 2014. At: http://www.independent.ie/business/irish/richard-curran-namas-22bn-sale-of-the-century-but-is-it-too-soon-30020244.html

and retail space – draws heavily on "creative city" branding. Launched by Mayor of London, Boris Johnson, at the Landmark Mandarin Oriental Hotel in Hong Kong in October 2013, the project appears however very much targeted at the overseas investor market. While all of the projects afforded completion financing by NAMA have complied with the individual project planning permissions and will therefore play a role in delivering new social and affordable housing, they are also contributing to the intensifying gentrification of already contested spaces.

3. Perhaps a less visible impact of NAMA's deleveraging activities has been the indirect advantages accruing from *land sales*. Part of NAMA's approach was to seek appropriate "marriage value" (value added) from combining freehold and leasehold ownerships which may have been in different ownerships; in certain instances such transactions were undertaken with public bodies, including the City of London Corporation, and local developers/investors, such as the Malborough Property Group based in Leicestershire, which acquired a strategic 3.34-acre site in Digbeth, Birmingham.

It is clearly evident that in the early years of the British climb-out of recession NAMA was involved in a reasonable percentage of land and development transactions, particularly focused on London and the South East. In some cases the involvement, whether through sales or development funding, created a significant development momentum, but it also raises issues more generally about how new agents, such as NAMA, are commoditising urban land and what this might mean for future planning.

Since the 2008 crisis, much attention has been directed at "*financialisation*" as a "form of spatial fixity; that is, the ways in which credit, leverage, financial speculation and financial engineering act to displace in time and across space, the contradictions of contemporary Anglo-American capitalism".[8] While some critics focus specifically on the idea of financialisation, the discussion of NAMA's activities in London clearly illustrates this process in practice: the sale on globalised investment markets of development loans and secured properties in Britain have been a crucial component of NAMA's attempts to deal with the consequences of the triple crisis in Ireland.

For example, in summer 2015, NAMA's Project Albion was sold to Oaktree Capital Management for around £115 million. Secured by 23 UK commercial properties – in Scotland and in English regional cities – and two assets in the Netherlands, all but one of the 22 loans

8 French, S, Leyshon, A & Wainwright, T 2011 "Financializing Space, Spacing Financialization" in *Progress in Human Geography, 35*(6), pp798-819

were in default. The purchase of this portfolio is just one transaction in an increasingly buoyant European loan sales market. The outcome is the growing presence of global equity houses and asset management companies – which speculatively purchase distressed property debt to garner significant future yields – as urban landlords. Given the expectation of generating significant returns either through increasing rental income or future sales, consideration could be given to a higher rate of capital acquisitions tax payable on properties originally purchased as distressed assets.

While NAMA had no interest in fire-selling British assets and was acting, arguably, as no more than a replacement lender in the British market, logic would dictate that a state-backed quango must operate in the interests of the state within which it is embedded. While it did not directly engage in speculative land hoarding in Britain, it has held back some key assets in prime locations. Through targeted development funding, it has also actively *driven property values higher* in an already heated property market.

From a regional development perspective, NAMA's impact is not clear, as it was deleveraging its British loan book at the same time as majority British government-owned banks (such as RBS and HBOS) and public-sector bodies were doing the same thing. Given the buoyancy of London and the South East, this may not have represented a particular problem for these regions, but it may have been more problematic in other parts of Britain where development land values were relatively flat. However, the lack of available data on NAMA's activities at a subregional level in Britain make this difficult to assess.

Concluding thoughts

Institutionally NAMA is a unique foreign owner, showing marked differences in its *raison d'etre* and primary objectives to sovereign wealth funds or overseas private investors. Based on the accessible data, it would appear that the Irish interest was relatively closely aligned with what was needed in the British – and particularly London – market post-2011, with some positive impacts discussed earlier.

However, through its porfolio sales and asset disposals, NAMA has been a key conduit through which private equity firms have gained access to key property assets in British towns and cities. Arguably more than just a replacement lender, it has played the role of broker between developer and investor, highlighting the increasingly disembedded nature of urban decision making and the difficulties of regulation within an increasingly global urban-financial complex.

Chapter 7

Financing urban infrastructure in London after the financial crisis

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Financing urban infrastructure in London after the financial crisis

In December 2014 and January 2015 the Greater London Authority signed two loan facilities with the European Investment Bank worth a combined £480 million.[1] On 11 May 2015 the GLA placed a Consumer Price Index-linked bond worth £200 million, the first of its kind in British history.[2] Together, this nearly £700 million financed two-thirds of London Underground's Northern Line Extension (NLE). Once operational in 2020, the infrastructure will link central London's Nine Elms area to the Tube grid. England's first tax increment financing (TIF) scheme will capture local business rates levied on 11 sites within the area to repay the £1 billion of upfront construction costs over 25 years.

The NLE is taking place more than four years into the "longest period of public-sector austerity in modern times".[3] The financial crisis hit London's ability to finance infrastructure particularly hard. The deficit reduction initiated by central government in 2010, and intensified in 2015, entails far-reaching budget cuts for local governments. One additional feature is the sharp rise in the Treasury's interest rates, which are charged to local government when they raise public finance. At the same time, many banks and monoline insurers, the conventional financiers of British infrastructure, collapsed or were downgraded in the aftermath of 2008. New regulations have also been imposed that limit their capacities to lend on the terms necessary for infrastructure.[4] In parallel with the drying up of infrastructure finance, London's population surpassed its 1939 peak in late 2014, while its infrastructure is groaning under a long history of underinvestment. In short, the NLE strengthens London's infrastructure capacity. It expands the city's low-carbon public-transport grid and unlocks the regeneration of the Vauxhall Nine Elms Opportunity Area, which is expected to add 25,000 new jobs and 16,000 new homes to the city, 15% of which will be affordable housing. It caters to London's growth as it sustains the city's population and attracts new business and investments and intensifies its economy.

The focus of this chapter is on the governance process necessary to attract international investment into London's infrastructure. It suggests that London authorities make crucial

1 European Investment Bank 2015 "European Investment Bank Agrees GBP 480m backing for Northern Line Extension". At: http://www.eib.org/infocentre/press/releases/all/2015/2015-022-european-investment-bank-agrees-gbp-480m-backing-for-northern-line-extension.htm
2 Mondovisione 2015 "Lloyds Bank Launch UK's First Consumer Price Index Linked Sterling Bond As New London Tube Link Moves One Step Closer". At: http://www.mondovisione.com/media-and-resources/news/lloyds-bank-launch-uks-first-consumer-price-index-linked-sterling-bond-as-new-l/
3 Travers, T 2012 "Local Government's Role in Promoting Economic Growth: Removing Unnecessary Barriers to Success", p5. At: http://www.local.gov.uk/c/ document_library/get_file?uuid=25a4547d-bc7e-415f-b1eb-7ed57070d66e&groupId=10180
4 Wagenvoort, R, de Nicola, C & Kappeler, A 2010 „Infrastructure Finance in Europe: Composition, Evolution and Crisis Impact" in EIB Papers 15(1), pp16-39

difference in governing the financing of urban infrastructure and that the process of financing urban infrastructure has broader unintended consequences for London's urban fabric. To make sense of the financing of infrastructure it distinguishes between infrastructure finance and infrastructure funding. The former is defined as the upfront capital requirements to get infrastructure construction underway. The latter refers to whom or what pays for the infrastructure in the long term.

The innovative financial arrangement that gets the NLE under way bypasses failures in the conventional infrastructure finance landscape. However, financing urban infrastructure via unconventional means has wider implications. To fall back on international finance, London authorities have to guarantee rates of return to international investors over time, and use urban development as collateral.

My argument proceeds in three steps. First, I sketch the broader political and economic context relevant to financing urban infrastructure in London. Second, I zoom in on the NLE, one innovatively financed urban infrastructure project. Third, I explore the spatial, social, and political implications of financing urban infrastructure via non-conventional means.

Urban infrastructure finance in transition

The UK's infrastructure finance landscape started to change with the drying up of liquidity in 2008 and the government's allocation of more than £840 billion in bailout funds,[5] and with the regulatory responses to the crisis. The coalition government, alarmed by the economic and social implications of the escalating infrastructure investment gap, but strongly committed to eliminating the national deficit by 2020, launched a major strategic policy initiative to deliver on infrastructure despite public-sector austerity. It commissioned Infrastructure UK to realise a regulatory environment and a project pipeline conducive to direct capital market and institutional investment into British infrastructure.[6] It took first steps towards fiscal devolution by providing subnational authorities with a fiscal base against which to borrow for infrastructure projects.[7] It continues setting up and expanding a number of financial instruments to compensate for the phase-out of block grants to subnational authorities by 2020,[8] such as the UK infrastructure guarantee instrument. Meanwhile, multilateral banks step up their project-specific lending to subnational authorities, while the banking sector continues to struggle after the massive bailouts.

5 National Audit Office 2010 "Maintaining the Financial Stability of UK Banks: Update on the Support Schemes". At: https://www.nao.org.uk/wp-content/uploads/2010/12/1011676.pdf
6 HM Treasury *National Infrastructure Plan 2011*. At: https://www.gov.uk/government/uploads/ system/uploads/attachment_data/file/188337/nip_2011.pdf
7 HM Treasury *Spending Review 2010*. At: https://www.gov.uk/government/...data/.../ Spending_review_2010.pdf
8 HM Treasury *Spending Review and Autumn Statement 2015*. At: https://www.gov.uk/government/ uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_ Accessible.pdf

The retreat of public finance from urban infrastructure is not new to the UK. The share of Britain's public sector gross investment as a percentage of GDP declined from 10% in the 1970s to less than 3.5% in 2013 and is expected to stabilize close to 3% over the next 5 years. Relative to the financial crisis related stimulus peak in 2009-10, public sector gross investment has declined by one third to £42 billion in 2013-2014. The role of private finance is not new, either. Introduced under Major and intensified under New Labour, the Private Finance Initiative alone lead to private capital formation in the UK worth approximately £60 billion. Since 2009-10, however, average annual private finance led capital formation has halved to £2.3 billion.[9] In conventional times an urban infrastructure project like the NLE would have been financed either through the Treasury and funded by the collective taxpayer, or, under a project finance arrangement, would have been financed by banks and monoline insurers and paid for either with collective taxes (as was common under a Private Finance Initiative scheme) or with revenues generated by the people using the infrastructure.

In more conventional times, an urban infrastructure project such as the NLE would have been financed either through the Treasury and funded by the collective taxpayer, or, under a project finance arrangement, would have been financed by banks and monoline insurers and paid for either with collective taxes (as was common under a PFI scheme) or with revenues generated by the people using the infrastructure.

What is new is the *internationalisation of financing and the localisation of funding*. The policy-led pitch for institutional and capital market investors to finance infrastructure entails devolving fiscal and legal powers to urban governments.

For global investors to invest, urban infrastructure projects have to be bankable – they need to yield an adequate risk-adjusted rate of return on investment, and they need to be adequately de-risked. However, as urban infrastructure is always implemented in complex local political, economic, and social circumstances, investors from afar do not always know how to assess investment risk. In other words, urban infrastructure projects need to convince global investors that the promised risk-adjusted rate of return on investment will not change over the lifespan of the debt service, and that agreed-on commercial terms are removed from political, popular, or legal challenges.

Urban authorities are the ones who can most credibly realise the bankability of urban infrastructure projects. They best know the local conditions the infrastructure is embedded in, they can skillfully co-ordinate relevant stakeholders to mitigate risks, and they can – if

9 National Audit Office 2015 "The Choice of Finance for Capital Investment". At: http://www.nao.org.uk/wp-content/uploads/2015/03/The-choice-of-finance-for-capital-investment.pdf

equipped with adequate fiscal and legal powers – best commit to rates of return on investment over time.

Urban authorities push for a "fiscal base against which to borrow" from international investors[10] to deliver urban infrastructure when conventional finance retreats. The historically very centralised fiscal regime in the UK makes subnational authorities overly dependent on benevolent central government transfers in the delivery of urban infrastructure.[11] The Treasury introduced tax increment financing, and devolved fiscal powers like the retention and setting of business rates, to compensate subnational authorities for the decline in central government transfers in the delivery of urban infrastructure.[12]

The Northern Line Extension

The NLE enables the expansion of infrastructure capacity amid austerity. The 3.2km of rail operationalise the policies laid out in the London Infrastructure Plan, which are integrated with the London Plan. They also make the Nine Elms area accessible and connect it to the City in less than 15 minutes. If development proceeds as envisioned by the Malaysian Development consortium, the area will add 25,000 new jobs and 16,000 new homes to London. The Secretary of State for Transport approved the NLE on these grounds.[13]

Funded by England's first TIF scheme and financed in good part by two loan facilities from the European Investment Bank and via private pension fund investment, the NLE is an innovatively financed infrastructure project – in getting under way on unconventional terms, it may be considered "best practice". Despite the strategic importance attributed by the Mayor of London to the Nine Elms area, and despite the high-level support enjoyed by the NLE from London and national authorities, both tiers of government ruled out public money from the beginning. Equally, the GLA deemed a project finance arrangement inadequate for the project's risk profile. Demand risk, it concluded – the risk that not enough people would use the NLE – was too high.[14] In addition, London had just terminated its experiment with the London Underground Public Private Partnership.

10 See for example Mayor of London 2014 *London Infrastructure Plan 2050: A Consultation*. At: https://www.london.gov.uk/sites/default/files/London%20Infrastructure%20Plan%202050% 20Consultation.pdf

11 London Finance Commission 2013 *Raising the Capital: The Report of the London Finance Commission*. At: https://www.london.gov.uk/sites/default/files/Raising%20the%20capital_0.pdf

12 HM Treasury 2015 *Fixing the Foundations: Creating a More Prosperous Nation*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/ Productivity_Plan_web.pdf

13 Secretary of State for Transport 2014 "London Underground (Northern Line Extension) Order: Decision Letter by the Secretary of State for Transport". At: https://www.gov.uk/ government/uploads/system/uploads/attachment_data/file/374578/141112-london-underground-northern-line-extension.pdf

14 Greater London Authority et al 2010 *Vauxhall Nine Elms Battersea Development Infrastructure Funding Strategy: Final Report*. At: www.lambeth.gov.uk/sites/default/files/15VNEBDIFSOctober2010.pdf

Innovative NLE funding – the NLE TIF scheme

How, then, should the £1 billion for the NLE be refunded? The moment TIF passed through Parliament, London authorities approached the Treasury to seek approval for the instrumentation of England's first scheme of this kind. Freezing commercial property tax levels in the moment of implementation and hypothecating every increment in tax revenues beyond this baseline for servicing upfront capital, TIF promises to pay for the construction of the NLE with the future value of Nine Elms' urban fabric generated by the infrastructure.

For the GLA, the problem was making sure that the amount of money captured via TIF over 25 years would actually suffice to pay back the £1 billion. If the TIF revenue stream should fall short of the £1 billion, the GLA would have to compensate by saving money on public service delivery. Subject to the 2003 Local Government Act, the GLA is inhibited from operating a deficit. Incoming revenue streams have to at least match expenditures, including debt-service costs.

In November 2013 the calculations performed by London authorities proved that the revenue stream TIF would capture was likely to suffice to pay back upfront finance over 25 years – forecast tax increments, prudently reduced by 20%, would with a likelihood of 95% cover capital costs at a weighted average interest rate of 5.6% and allow for a six month cash cover for interest rate payments.[15] As the kick-off for redevelopment was still more than a year ahead, London authorities based their future-oriented appraisal on the high-value and high-density aspirations of the developers.

To further stabilise the cash flow and to further harmonise high-density with high-value development, the GLA followed Wandsworth Council's recommendations to lower the social housing target rate for the Nine Elms Area from 40% to 15%. Less social housing increases property values and maximises developer contributions to the needed social infrastructure provisions. Roughly 70% of the developer contributions had already been earmarked to form a third of the NLE financing. The GLA is well aware that "affordable housing is generally not profitable".[16] To lock development in, London authorities committed contractually to the developers and themselves to proceed with the Area and with the NLE as planned.

An economically viable NLE promised to put the infrastructure vision spelled out by the central government into operation. Infrastructure delivery under austerity would be paid for by the

15 Greater London Authority 2013a "Northern Line Extension: Request for Mayoral Decision – MD1269". Available at: https://www.london.gov.uk/sites/default/files/MD1269%20NLE%20Part%201%20PDF.pdf

16 Greater London Authority 2013b "Planning Committee: 28 November 2013. Transcript Item 4: Long-Term Infrastructure Plan for London", p38. At: http://www.london.gov.uk/ moderngov/documents/s31497/Minutes%20-%20Appendix%20 1%20-%20Transcript.rtf?CT=2

prosperity of the future. In late 2011 the Treasury granted conditional approval to the NLE TIF scheme. Furthermore, in November 2013 the Treasury offered to cover the project under the UK Infrastructure Guarantee. The instrument provides an "unconditional and irrevocable guarantee to the lenders to infrastructure projects, ensuring that scheduled interest and principal payments will be paid in full, irrespective of project performance"[17] to infrastructure projects of strategic national interest. The guarantee turned the anticipated revenue stream into a cash flow against which to borrow from international investors; the TIF calculation alone had been nothing but a forecast.

In highly fiscally centralised Britain, however, the guarantee did not come free of charge. To begin with, the instrument is revolving. Risk mitigation costs have to be offset by a fee. The guarantee for the NLE costs the GLA £40,000. Secondly, the Treasury chained the GLA to public finance. In exchange for the guarantee, the GLA had to finance the NLE through the Treasury.

Innovative NLE financing

Once the NLE became a project of strategic national interest,[18] London authorities sensed their chance to tap into financing sources other than the Treasury's and to score a point in its power struggle with the central government. With project risk carried by the UK taxpayer, with a robust revenue forecast at hands, and with the Transport & Works Act order granted, the GLA persuaded central government to dissolve the exclusivity requirement attached to the guarantee and initiated conversations with alternative investors.

Not only did the increased costs of public finance threaten to compromise the GLA's ability to deliver public services, the established robustness of the cash-generating capacity of the project also opened the possibility of attracting international investment. The NLE, in other words, promised to become one project that provided confidence to the global investment community that London's infrastructure was worthy of investment. It was one best-practice project with which to vouch for the credibility of the strategic national infrastructure framework.

For alternative sources of finance, however, the NLE was still far too risky. The complexity of the project "in terms of its location, its construction, and the fact that you have got interested public-sector stakeholders, its joining up to a network that already exists" escalates the political risk that the commercial terms of the project would become impaired. At that time,

17 National Audit Office 2015 "UK Guarantee Scheme for Infrastructure". At: https://www.nao.org.uk/wp-content/uploads/2015/01/UK-Guarantees-scheme-for-infrastructure.pdf
18 HM Treasury *National Infrastructure Plan* 2014. At: http://www.gov.uk/government/uploads/system/upldoads/attachment_data/file/381884/2902895_NationalInfrastructurePlan2014_acc.pdf

the 2015 national elections were coming up. London held elections in May 2016. Hence, the GLA took action to stabilise the TIF revenue stream into a collateral accepted by non-conventional finance. In the summer of 2014, it coordinated to pass secondary legislation to remove the scheme from political reach over the 25 years of debt service. In addition, to hedge against macroeconomic risk, the GLA linked £200 million of the financing to inflation.

Overlapping developer and GLA visions as well as the line-up of central government allowed the project to move quickly. Based on the calculative appraisal, the guarantee, the secondary legislation and the inflation link, the GLA was able to attract commercially competitive international investment into the NLE; the realised finance will be significantly more than £40 million cheaper than public finance.

The implications of innovative urban infrastructure finance

The innovative financial arrangement allows London authorities to expand low-carbon public-transport capacity and to unlock new jobs and homes at a competitive price. In fiscally highly centralized England the NLE TIF scheme devolves a specific share of general taxation to London authorities against which they can borrow for the infrastructure on the public balance sheet. The value of this share of taxation, used to service up-front debt, is generated by the development of the Nine Elms Area, which on its own becomes viable through the NLE.

However, in pledging a tax levied on a specific urban fabric as collateral for financing worth £700 million, the financial arrangement has its own implications. Upfront investment for the NLE is predicated on the robustness of the NLE TIF scheme. Business rates levied on the 11 sites will only suffice to pay off the debt if, at the right moment, the right kind of businesses move in the right kind of physical environment and the right kind and numbers of people consume, work, and live in the area and use the NLE. Precisely this demand risk made London authorities rule out a project finance arrangement for the NLE.

Even if Nine Elms' future cannot be guaranteed, London authorities must guarantee the revenue stream its urban fabric will generate. They commit the developers to develop as planned, which entails minimising social housing provisions to reconcile high density with high value. They bring the project under the UK Infrastructure Guarantee, which allocates every risk associated with debt service to the collective taxpayer. They issue secondary legislation to remove the TIF scheme from political reach over the 25 years of its existence. Finally, they link part of the financing to inflation. London authorities guarantee international investors the commercial terms of their investments with a hypothecated share of commercial property taxes levied on a specific urban fabric for whose yield they vouch over 25 years.

The conditions upon which international investors invest into urban infrastructure shape London's urban fabric. With the transformation of the conventional infrastructure finance landscape and with the transition of UK's public finance to an instrument-based regime, subnational authorities explore innovative financing solutions to get urban infrastructure projects underway. To attract international finance, subnational authorities guarantee rates of return with the cash-generating capacity of their own urban fabric. However, while concerned with practical intervention, the pitch to capital market and institutional investors formats space according to an identifiable logic with identifiable winners and loser. London authorities seek to scale up the use of comparable schemes, for example for Brent Cross. However, what works in prime central London might not work "in bits of outer London and much of the rest of the country".

What allows London authorities to co-ordinate this formation of urban infrastructure with international investment is in good parts the UK Infrastructure Guarantee Scheme. This financial instrument guarantees the commercial terms of the NLE with the national balance sheet. If the TIF revenue stream falls short of debt service payments, the Treasury fills the gap. If the Treasury has to step in, the GLA can extend the duration of the TIF scheme by a maximum of five years to retain enough business rates to service international investors and pay off the Treasury. While removing project risks for international investors, this five-year contingency period creates a cash buffer for London authorities of approximately £300 million. It allows Nine Elms' urban fabric to generate revenue below calculation.

There is a lesson to be learned here, at last, for Britain's infrastructure finance policy. The failure in infrastructure finance is not so much about financing, as it is about the interplay between financing and funding, between upfront capital and who pays for the infrastructure in the long run. If urban infrastructure projects are increasingly collateralised with a spatially specific urban fabric, financial instruments comparable to the UK Infrastructure Guarantee can simultaneously realize cash-flow characteristics upon which institutional investors and capital markets can invest and ease the cash-generating requirements placed on people, buildings, and public spaces that populate cities.

Such an instrument targets rates of return rather than upfront capital. Instead of the project-by-project approach entailed by the Treasury's policies, it takes a portfolio approach to harmonise the delivery of socially and environmentally sustainable urban infrastructure with economic viability requirements. It employs eligibility criteria that insist on adequate project structuring informed by urban planning, which pool sustainable but possibly economically underperforming projects with economically

viable projects that might be less sustainable under the same instrument. And it prolongs the time frame in which materialising value can be captured. Hedging against potentially too low returns in urban infrastructure, adequately structured and adequately governed financial instruments can foster territorial cohesion in times of fiscal austerity.

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