cutting through complexity

City Deals: Road to Long Term Infrastructure Funding, Strategic Planning and Greater Local Control

12th November 2015

Agenda

- Overview of City Deals in the UK
- Key Features and Principles
- End-to-End Economic Prioritisation
- Funding and Financing
- Governance and Delivery
- Case Studies
- Key Benefits
- Lessons Learned from the UK
- Relevance to Australia and NGAA

Overview of City Deals in the UK

1. Challenges

- **Spatially imbalanced economy** with infrastructure identified as a key constraint
- Long term planning held back by **short term spending cycles**
- Infrastructure **appraisal system lacks context** and misses key outcomes
- City regions have **little revenue raising and decision-making powers**
- **Fragmented local government administrative structure**

2. Objectives

- Encourage **new governance structures** based on **functional economic areas**
- Push city regions to produce **long term strategic economic plans** that can work
- Set out **long term funding structures** that link to the economic and spatial plans
- **De-politicise the investment prioritisation process** as much as possible
- Enhance **competition between regions**

3. Approach

- Region-wide governance structures – **Local Enterprise Partnerships**
- New funding mechanisms – **Local Growth Fund**
- Longer term funding arrangements – **City Deals for Core English Cities**
- Link funding to performance – **Tax-increment finance and Payment by Results**
- Reward the regions that take the extra mile – **Manchester Earn Back**

City Deals were conceived as a mechanism to drive stronger economic growth across the major centres outside of London in the United Kingdom

Key Features of the City Deals Model

Agreed key strategic objectives as well as secondary objectives to ensure balance

Objectives that **align local outcomes** with the national interest

Meaningful local risk taking via **additional investment**

Effective **tools for prioritisation** and package building

An **effective local coalition**, ideally consistent with the economic geography

Resources to deliver the City Deal

A more effective mechanism for infrastructure funding, prioritisation and governance across metropolitan regions

Key Principles of the City Deals Model

Setting out a clear long term strategic plan for a functional economic area

Establishing Governance and Metrics

Program agreed based on performance of projects against key metrics

Real Economy Prioritisation

Prioritising projects by their impact on increasing jobs and economic output

Establishing Funding Parameters

Agreeing baseline budgets, payment by results and "self help"

Establishing a fit-for-purpose delivery structure

End-to-End Economic Prioritisation

Stage 1: Strategic context

Set out the economic context and strategic case for intervention

Stage 2: Filtering

High level review to eliminate certain interventions against filters (e.g. risk, strategic fit)

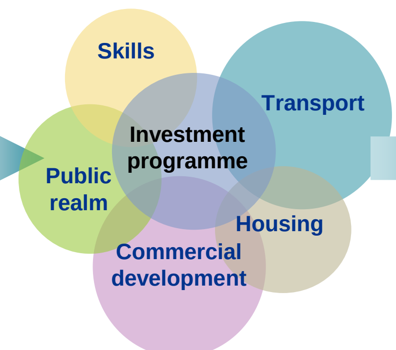
Stage 3: Assessment and prioritisation

Detailed review and prioritisation of interventions

- Project 1
- Project 2
- Project 3
- Project 4
- Project 5
- Project 6

Stage 4: Create a programme

Ensure individual projects form a coherent investment programme



Illustrative example only

Stage 5: Business case development

Develop business case for large scale priority projects

- Overall strategic alignment
- Economic case
- Funding and finance
- Synergies and other social-economic benefits
- Political acceptance

A robust and transparent end-to-end economic prioritisation approach that focuses on the issues that matter is one of the key principles of City Deals

Funding and Financing

Project-specific Funding

Scheme net revenues (net of operational costs)

Taxation (e.g. Business Rates in the UK)

Third-party contributions (e.g. developers)

Value capture approaches

Programme/Fund Approach

- **Plugging the funding gap at the programme level**
- **Fundamentally through a performance-based approach**
- **The key approach is a payments-by-results mechanism**

Financing is through locally-supported borrowing, through a loan-based approach rather than a grant

How does Payment-By-Results actually work?

Investments are prioritised based on their economic or fiscal returns / $ of net cost across region

Best performing programme that delivers balance is financed through local borrowing

As schemes are delivered, economic impacts are independently assessed

The region is paid as sufficient growth is generated – drawing on a share of taxation flows generated

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Payment-by-results revenues are used to repay initial borrowing allowing the cycle to repeat itself

Governance and Delivery

Region-wide Governance and Delivery Structures

Structure	Purpose
Local Enterprise Partnerships (LEPs)	• Public/private partnership to drive growth and jobs • Controls decisions over certain funds, e.g. EU funds • Responsible for Strategic Economic Plans (SEPs)
Integrated Transport Authorities (ITAs)	• Responsibility for transport strategy and planning in major urban areas • Funds the Passenger Transport Executives
Passenger Transport Executive (PTEs)	• Delivery arms of the ITAs for passenger transport • Funded entirely through the ITAs, although it has commissioning powers
Combined Local Authorities	• Responsible for overall economic development and regeneration in the constituent member authorities • Supersedes ITAs where it is established
Metropolitan Mayors	• Has emerged as the necessary governance structure to secure wide-ranging fiscal devolution • Greater Manchester and Sheffield City Region have adopted the model and have been the first to be rewarded

Combined Local Authorities and Metropolitan Mayors are now a pre-requisite for wider devolution Powers in the UK

UK Fund Facts on a Page

Greater Manchester

Key facts: 10 local authorities – Population: 2.7m – GVA: £51bn

Governance: TfGM, Combined Authority, City Region Mayor from 2017/18

Fund size: £2.75bn by 2021

Investment period: 12 years (ie started in 2008/9)

Type of infrastructure: Transport, but recent deal widens (£300m rolling housing fund is additional to the £2.75bn above)

Decision metrics:

- Primary – Maximise GVA net at GM level
- Balance – Reduction in transport CO2 emissions; Above average increases in employment accessibility for most deprived wards

Economic benefits: £3.6bn p.a. (2009 prices) in GVA by late 2020s; 37,000 jobs

Annual GVA uplift per £1 of capex: £1.3 (2009 prices)

Funded by:

- DfT devolved: £0.6bn
- Growth/City Deal income: £0.75bn (£0.45bn Earnback; subject to performance)
- Local contribution: Capex: £1.25bn plus £0.15bn of LTP top-slice
- Local contribution: Cost of carry: £1.25bn (total local £2.5bn over 30 years)

Annual local cash cost: £80m - £100m from early 2020s, depending on Earnback

Leeds City Region

Key facts: 6 local authorities (WY plus York) – Population: 2.5m – GVA: £47bn

Governance: WY Combined Authority and side agreement with York

Fund size: Up to £1.45bn by 2025

Investment Period: 11 years starting now

Type of infrastructure: Transport only

Decision metrics:

- Primary – Maximise GVA net at WY+Y level
- Balance – Employment accessibility improvement in every district at least half the average; *Aspiration* to reduce transport CO2 emissions

Economic benefits: Up to £2.6bn p.a. (2011 prices) in GVA by mid 2030s; 23,000 jobs

Annual GVA uplift per £1 of capex: £1.8 (2011 prices)

Funded by:

- DfT devolved and scheme specific: £0.35bn
- Growth/City Deal income: £0.6bn (£0.45bn subject to performance)
- Local contribution: Capex: Up to £0.5bn
- Local contribution: Cost of carry: Up to £0.55bn (for £1.05bn in total)

Annual local cash cost: Peaks at up to £40m pa in the mid/late 2020s

Glasgow City Region

Key facts: 7 local authorities – Population: 1.7m – GVA: £36bn

Governance: Risk sharing deal between authorities and joint oversight

Fund size: £1.13bn – One-off investment by 2025

Investment Period: 10 years starting now

Type of infrastructure: Transport, regen, and housing

Decision metrics:

- Primary – Maximise GVA
- Balance – Employment accessibility in any district at least half the average, and risks divided pro rata to investment "on patch"

Economic benefits: £2.2bn p.a. (2011 prices) in GVA by mid 2030s (£1bn Scotland level; £0.8bn at UK level) ; 28,000 jobs

Annual GVA uplift per £1 of capex: £2 (2011 prices)

Funded by:

- HM Treasury: £0.5bn (£0.375bn subject to performance)
- Scottish Government: £0.5bn (£0.375bn subject to performance)
- Local contribution: Capex: £0.13bn
- Local contribution: Cost of carry: £0.5bn (total of £0.63bn over 30 years)

Annual local cash cost: Peaks at circa £40m pa in mid 2020s

Key Benefits of City Deals

Capital investment ratio at 20:1 compared with other cities and regions

A **step change in the economy** – 4 to 6% permanent uplift

Ability to **target local objectives** and achieve balance

Local coalitions that are able to pool resources and **generate higher returns**

Lessons Learned from the UK

- Setting out **a clear strategic direction and vision** upfront is crucial, both for guiding the rest of the process and building the local coalition
- Simply dusting a list of projects off the shelf is not the best way to go about the process, instead it is an opportunity to **design a strategic programme** that can really impact the economy
- It is important to **think local** in what actually works within the region in terms of an economic strategy and **how it fits with the national direction** and what a programme that supports it looks like
- **Set up a governance and/or delivery structure that has purpose**, with the city deal/ infrastructure fund sitting at the heart of it. Setting this upfront leaves it looking for a purpose which is unlikely to work
- Think about what **resource and structure is necessary for implementation and execution** early in the process so that all partners understand what it takes once the delivery phase starts and have confidence that projects will de delivered
- **Confidence with the prioritisation process is key** for building trust among partners that are effectively taking risk

Application to Australia: Overview of Opportunity

1. Challenges

- A consistent **lack of delivery on metropolitan plans**
- A **lack of consistency** across infrastructure planning (local, state, federal)
- A current process of trying to pick winners, **not prioritising regional outcomes**
- **Limited focus on productivity** in infrastructure planning

2. Objectives

- **Microeconomic reform** to better deliver regional infrastructure planning
- **Macroeconomic growth outcomes** to be brought to the centre of planning
- Utilising infrastructure investment to unlock place driven economic outcomes – '**place matters**'.

3. Approach

- Leverage regional governance structures – **Regional Organisations of Council; Metropolitan Planning Committees etc.**
- New funding mechanisms – **Priority Infrastructure Fund**
- Prioritise metro / sub-regional corridor infrastructure consistently – **GVA Prioritisation**
- Link funding to performance – **Tax-increment finance and Payment by Results**

City deals have the potential to address a range of the limitations that have prevented the effective delivery of metropolitan planning in our cities and regions

Application to Australia and National Growth Areas: Key Considerations

1. ***Targeting the right economic development strategy.*** Although main focus is on major cities, regions have a huge role to play in national economic development. However, the right sector approach and relevant corridors matter.

2. ***Housing and labour markets matter.*** The right approach takes account of the fact that national growth areas need the infrastructure to support housing growth which provides the labour market that is necessary to drive growth in cities.

3. ***Governance is Key.*** A strong political leadership that thinks across boundaries in the National Growth Areas is key.

4. ***Long-term funding plans.*** A City Deal is about locking in long term strategic and development plans to a funding line that means these can be implemented.

5. ***Resource for delivery.*** A joint up approach means the ability to pool funding sources and capacity/capability to deliver and implement plans more effectively and efficiently.

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