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cutting through complexity

PROPERTY COUNCIL of Australia

Introducing UK City Deals

A smart approach to supercharging economic growth and productivity

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Contents

Preface

Nine reasons why the UK approach to urban and regional growth provides a model for Australia

The UK City Deal model is the British Government's innovative strategy for building stronger urban and regional growth via smarter strategic planning, infrastructure investment and local governance.

This publication by KPMG and the Property Council of Australia summarises the City Deal approach and why it provides a model for Australia.

More than 20 City Deals have now been signed with more on the way.

The Greater Manchester deal signed in 2012 provides a template for the most ambitious of these deals. This includes the Greater Cambridge City Deal signed in June 2014, in per capita terms, arguably the most ambitious yet.

In Australian public policy terms, the UK City Deal prototype represents a National Competition Policy style approach to economic development.

The core goal of UK City Deals is to direct infrastructure spending to projects that boost productivity, employment and economic growth.

The UK model represents a **radically new approach to infrastructure priority-setting, funding and financing. The more ambitious City Deals involve establishing a growth benchmark for a city or region in return for a dose of growth focused self-help.**

The UK model determines an economic growth budget for a designated region, measured as gross value added – a local "GDP".

A city or region that exceeds this benchmark on the back of its self-help then receives a fiscal reward – that is, a share of the windfall tax arising from additional economic growth.

The Property Council is working with partners, such as the Urban Coalition and the Australian Sustainable Built Environment Council (ASBEC), and all spheres of government to adapt the City Deal approach to Australia's strategic needs.

Here are nine reasons why we commend the UK approach.

Ken Morrison
Chief Executive,
Property Council
of Australia

Paul Low
Partner, KPMG

1

A City Deal is a contract – the deal is a deal!

Each City Deal is codified as a contract between an economic region and the central government.

A City Deal generally runs for 10 years or longer. Each identifies a list of priority infrastructure projects to be delivered, along with economic performance benchmarks.

2

The focus is on productivity and growth

Wise choices about infrastructure investment boost economic productivity.

The UK City Deal model explicitly targets a package of infrastructure projects that lift a region's economic capacity over a long-term timeframe.

This helps focus competing priorities into a coherent set of goals that can be communicated to business and the community.

3

City Deals encourage local leadership and good governance

The UK approach revolves around City Deal partners.

In Manchester, the 10 existing local government authorities combined to form the Greater Manchester Combined Authority (GMCA) in 2011.

In addition, Local Enterprise Partnerships link key stakeholders – government, business, community groups – based on logical economic regions.

This encourages a more enterprising, strategic approach to growth and self-reliance.

In doing so, City Deals also foster the growth of social capital and local resilience.

4

City Deals utilise smarter tools for determining infrastructure investment priorities

The City Deals approach moves from narrow benefit–cost analysis to an agreed measure of gross value added for a region (a local "GDP").

It aligns the methodologies for selecting infrastructure investment priorities to a methodology for rewarding the performance of City Deal partners.

All City Deal contract proposals are independently assessed by the UK Treasury, which also monitors annual progress towards agreed economic goals.

The UK City Deal program represents a major paradigm shift, where:

- project priorities and program success are assessed in terms of **growth in jobs and productivity** (along with attendant increases in tax revenue); and
- the goal is to achieve ongoing improvements in gross value added (local GDP) for an economic region.

The UK City Deal approach promotes a move away from budget silos – a "housing budget", a "transport budget" etc. – to an **"economic growth budget" for a region**.

The lens provided by a comprehensive assessment framework shifts the fiscal focus away from isolated project evaluations to metrics that capture broader benefits – this includes welfare, housing and regeneration dividends.

5

City Deals unlock access to innovative financing

Financial incentives motivate and reward smart thinking.

The UK City Deal model allows deal partners to "earn back" a share of the additional taxation dividend generated by faster economic development – a growth windfall.

The UK City Deal model also gives City Deal partners access to a menu of financing options.

First, City Deal partners receive baseline funding – that is, long-term certainty around core revenue streams.

Second, City Deal partners are encouraged to enter into innovative types of capital formation partnerships with the private sector.

Public-private partnerships (PPPs) are on this menu, as are local asset backed vehicles and tax increment financing.

These models complement traditional forms of capital raising.

In an Australian context, "earn-back" is analogous to competition payments under the National Competition Policy (NCP) model.

Incentive payments can be used to amortise existing debt obligations faster, or to finance new priority infrastructure projects.

6

City Deals help join up economic, social and sustainability goals

A feature of UK City Deal contracts is the inclusion of complementary programs relevant to a region.

For instance, the Manchester City Deal includes:

- a Growth Hub program;
- a Skills Hub – a plan to employ 6,000 apprentices;
- a Low Carbon Demonstrator initiative – an innovative funding model to reduce emissions;
- an Inward Investment Beacon – a program for attracting international and patient capital to local projects; and
- a housing program that aims to deliver 7,000 new homes by 2017.

The Birmingham and Solihull City Deal includes:

- a plan for 100,000 extra private sector jobs (generating an additional $23 billion of GVA by 2020);
- a Life Science Accelerator program;
- a Skills for Growth program; and
- Green Deal initiatives.

In other words, City Deals foster a **mutually reinforcing set of public policy programs**.

7

City Deals promote powerful political leadership that boosts economic productivity

The UK City Deals program is overseen by a Minister who works closely with the Treasury portfolio.

This approach recognises that cities are economic assets which drive productivity and growth.

To broker the deals across central government departments (including the Treasury), there is a central unit that helps City Deal partners assess infrastructure priorities and set GVA growth benchmarks.

These benchmarks are written into each City Deal.

Where deals involve additional payments to a city linked to additional growth (like the most recent Greater Cambridge deal), there is a role for an independent assessment of delivery to reassure both sides that they are getting a fair deal.

8

City Deals promote financial literacy and skills at a local level

The Birmingham and Solihull City Deal partners have established GBS Capital, which aims to leverage $2.5 billion of seed funding into $25 billion of private capital.

The Greater Manchester Combined Authority has established a $2.5 billion "revolving infrastructure fund".

These special purpose financing vehicles are monitored by the UK Treasury and operate under strict governance arrangements.

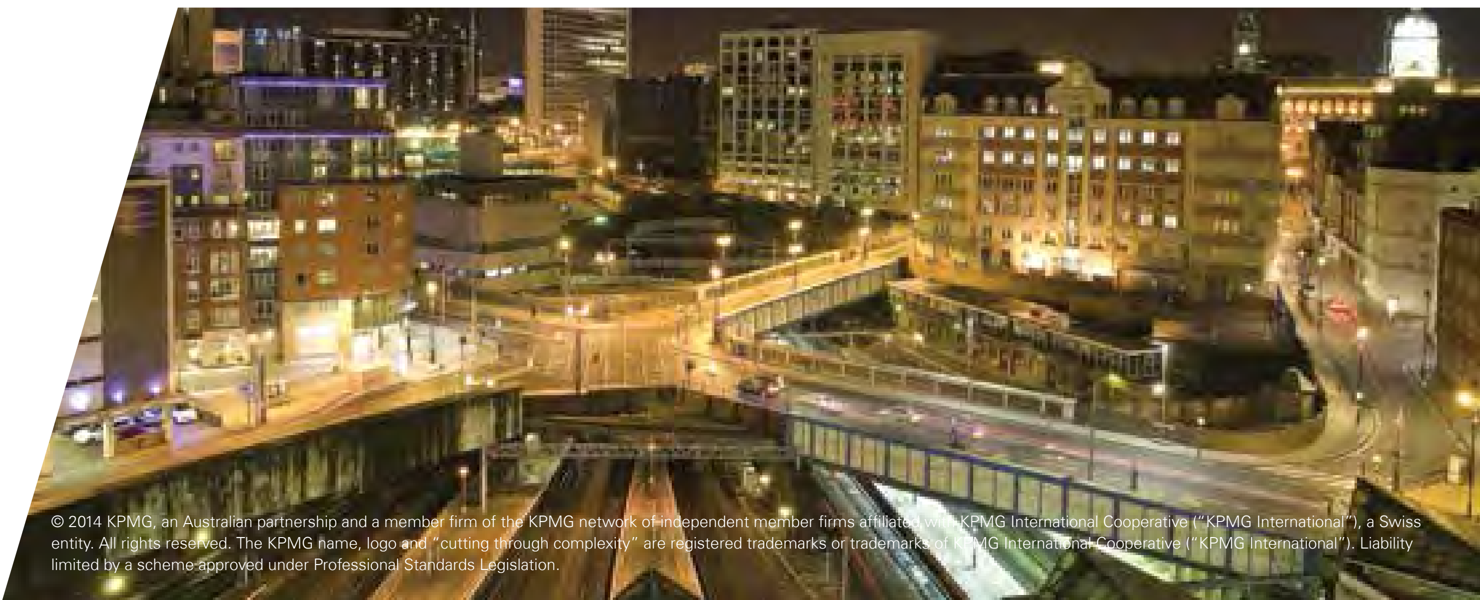
Deeper involvement by local stakeholders, who are accountable for their actions, fosters financial know-how.

9

There is less need to rely on inefficient taxes when efficient alternatives are available

Australia's panoply of inefficient taxes exist because of cost-shifting between governments, poor access to capital and policy conservatism.

A secure stream of capital for infrastructure projects (within a disciplined framework) will not only reduce reliance on inefficient taxes but may also provide the basis for phasing them out.



Introduction

Central and local government in the United Kingdom (UK) have collectively developed and implemented a new model for infrastructure funding and delivery. This City Deal model has provided a foundation for a growing number of city regions in the UK to overcome infrastructure deficits, reduce funding shortfalls and grow local economic activity.

The model developed for the UK has:

- enabled a range of local governments to ***come together and agree*** on local infrastructure priorities;
- initiated a dramatic ***increase in local investment; and***
- ***cut through political discourse*** to focus on ensuring investment ***maximises economic growth.***

The model has enabled a more financially sustainable approach to infrastructure financing through the implementation of a ***"long-term rolling investment"*** approach that draws on new sources of committed funding. This has provided greater certainty around infrastructure investment; a commitment to prioritisation of infrastructure around economic growth outcomes; and the capacity to fund a greater scale of infrastructure than has historically been possible.

The UK City Deal model was first conceived in Greater Manchester, and this remains the most mature City Deal. The deal was struck between the 10 local authorities and central government, because Greater Manchester was able to quantify that it offered:

- ***a net measure of economic growth*** at a sufficiently large level of geography (whole of Greater Manchester), such that most of the displacement effects of individual schemes are netted out;
- a program which robustly ***prioritises net increases in jobs and productivity*** at the appropriate level of geography;
- ***a commitment to reinvest all money earned back*** in further GVA-prioritised schemes – this provides a rolling investment fund that can target sustained economic growth, rather than a one-off step change; and
- ***up-front money over and above central government funding*** that earns the right to the fiscal gain share – the point being that this self-help generated tax is genuinely additional for the Exchequer (Treasury).

The successes experienced in the UK provide a range of lessons for the prioritisation and funding of infrastructure in Australia. The challenges that both countries face are the same – specifically, ***not only how to identify the infrastructure that will best drive economic growth but also how to fund the delivery*** of this enabling infrastructure. The benefits of the model that have eventuated from resolving this challenge are summarised over the remainder of this chapter. They include:

- urban productivity;
- liveability dividends;
- governance; and
- revenue optimisation.

Urban Productivity

A core tenet of the UK City Deal model has been the prioritisation of infrastructure investment on the basis of the capacity of that ***infrastructure to deliver productivity improvement and jobs growth***.

This reflects a shift in accepted transport assessment methodologies in the UK, whereby the ***growth benefits associated with infrastructure investment become the central focus for the value for money assessment***. In practice, this also means focusing on the outcomes that generate the tax revenues that pay for publicly funded investment, an inherently more commercial and entrepreneurial approach than is generated by more traditional appraisal methods. This has helped to capture the employment growth that can be attracted and incentivised through improved connectivity and sound infrastructure investment.

All projects within the scope of the deal are effectively ranked on the basis of their capacity to deliver productivity and employment outcomes. The onus is then placed back on stakeholders to determine how far down the list they are willing to fund. Ultimately, this has resulted in a much more rational approach to investment decision making. It makes it harder to argue for investment programs that generate fewer jobs and less growth, which is what reordering of projects prioritised on the basis of maximum impact of funds invested would mean.

It has also enabled decision makers to ***better engage with business and the community,*** as investment decisions are being made around a central tenet of economic growth.

The linkages between the infrastructure covered under existing City Deals (transport, housing and urban regeneration) and productivity are summarised in the diagram below.

Transport investment

- Changes in connectivity
- New and more productive business attraction

Housing investment

- Induced local employment
- Displacement of activity
- Changes in connectivity
- New and more productive business attraction
- Congestion alleviation – travel time savings
- Increased productivity

Regeneration investment

- Displacement of activity
- Changes in connectivity
- New and more productive business attraction

GVA / tax uplift

Liveability Dividends

The core concept of a deal also ***provides a substantial incentive for local authorities to invest*** in supporting the realisation of economic outcomes. If economic growth resulting from the investment exceeds agreed benchmarks, the city can earn back a share of the incremental tax revenue generated for the central government.

This has resulted in cities ***joining up economic and social programs*** to maximise the benefit associated with infrastructure investment.

For instance, the Manchester City Deal includes:

- a Growth Hub program;
- a Skills Hub – a plan to employ 6,000 apprentices;
- a Low Carbon Demonstrator initiative – an innovative funding model to reduce emissions;
- an Inward Investment Beacon – a program for attracting international and patient capital to local projects; and
- a housing program that aims to deliver 7,000 homes by 2017.

The Birmingham and Solihull City Deal includes:

- a plan for 100,000 extra private sector jobs (generating an additional $23 billion of GVA by 2020);
- a Life Science Accelerator program;
- a Skills for Growth program; and
- Green Deal initiatives.

As demonstrated above, these City Deals have fostered a mutually reinforcing set of public policy programs and investments.

Governance

The UK City Deal model has proven to be a model that ***has benefited both central and local government*** in the UK, as well as the community and private sector. This has been achieved through a consistent focus on:

- net growth in economic activity and productivity; and
- net growth in employment.

The appeal of these outcomes has formed the foundation for regional collaboration to achieve a mutually beneficial deal. The negotiations at the heart of the deal have enabled ***an improved relationship between metropolitan local authorities and the central government***, as well as increased engagement and cooperation at the local level.

The deal has also paved the way for new approaches to metropolitan governance, as local authorities seek to establish the most efficient governance structures to underpin the deal and readily implement key decisions around investment. This renewed focus on local governance has encouraged a more enterprising approach to infrastructure matters, and provided ***greater ownership over regional planning and direction***.

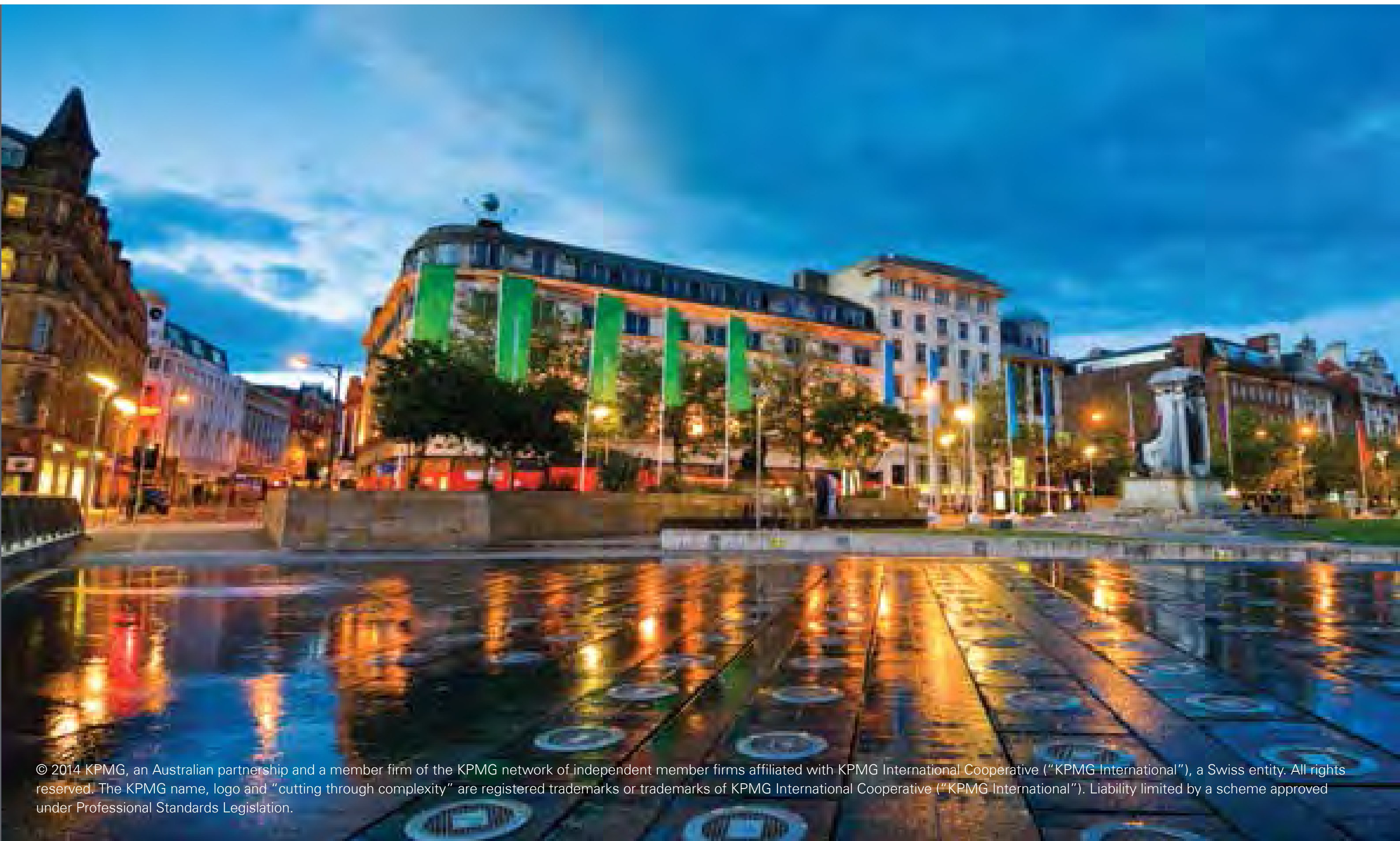
Revenue Optimisation

A new approach to funding has proven ***a turning point for the model in the UK***. While it was the final element of the model to be finalised, the inclusion of an earn-back incentive has provided the basis for a sustainable revenue stream to reinvest in the deal.

As previously highlighted, the earn-back incentive provides a financial motivation for local and central government authorities to maximise economic growth, central government revenue generation, and, ultimately, additional funding to reinvest in new infrastructure projects. ***This incentive motivates strategic thinking, collaboration and public policy innovation***.

Effective prioritisation at the outset ensures that available investment funding is channelled towards the projects that are going to maximise economic growth. This ensures the community and ultimately the economy receives ***the greatest return on infrastructure investment***. Furthermore, the long-term prioritised infrastructure program provides clarity on projected expenditure, with the earn-back incentive ensuring that local authorities commit to the delivery of the program.

In addition to the benefits listed above, key lessons learned from the UK City Deal model and their applicability to Australia are summarised over the remainder of this document.



UK City Deals History and Philosophy

The more significant City Deals, including the recently agreed Greater Cambridge deal, have been developed with two central objectives:

1. to cause ***a step-change in the level of infrastructure being delivered***; and
2. to ***maximise the economic growth realised*** as a product of this investment.

The model was developed and refined in Greater Manchester, and is now what the more ambitious cities are seeking to replicate.

The UK governments recognised the need for change, understanding that a new model for infrastructure prioritisation, funding and delivery was required to address the downfalls of the current infrastructure system. The key ***driving factors for the change*** to the new model in the UK were:

- realisation that what cities were asking for (total of project-by-project bids in the pipeline) was (even pre Global Financial Crisis) heading for 20 times the available budget, turning ***investment decisions into a huge source of tension*** and conflict between central and local government, with the UK Department for Transport (DfT) having to use a long, drawn-out appraisal challenge process as a means of managing demand;
- recognition that a combination of project-by-project traditional benefit–cost ratios (BCR) and ***lobbying was a very costly and inefficient allocation mechanism***, particularly against the background of central government's balanced growth objectives and cities' ambitions to grow their economies;
- recognition (sparked by the London Crossrail project) of ***the role of transport infrastructure in driving economic performance***, leading to fundamental questions about the traditional fixed (i.e. jobs, population and incomes are fixed) BCR approach to appraisal; and
- increasing ***interest in alternative funding mechanisms*** (value capture etc.) and (with Crossrail as a case study) questions about how to maximise incentives to develop and deploy these.

Of the above reform drivers ***the most pertinent was the pressure on DfT budgets***, with Treasury persuading DfT to set and publish expenditure guideline budgets at a regional level.

While this approach helped bring home budget realities and aligned formal bids to DfT to something much closer to its budget, in the absence of a regional tier of government it was far from the complete solution.

It did, however, prove to be a major stepping stone towards the new model by forcing places like Greater Manchester to think radically about what a fuller reform package might look like – particularly one that would deliver the economic outcomes it was seeking, which it recognised would require a fully funded and fit-for-purpose investment program.

The philosophy of this reform package is summarised overleaf. It focuses on:

- economic prioritisation;
- infrastructure, growth and reward;
- stakeholder engagement; and
- investment accountability.

Economic Prioritisation

Core Philosophy

Clear and quantified investment decision making based on agreed prioritisation metrics.

Certainty on the investment pipeline and priority.

The UK City Deal model has a relatively regimented prioritisation process in order to effectively manage available funds and infrastructure delivery. This prioritisation process ensures that ***investment is made on the basis of economic priority***, rather than any other influencing factors.

Prioritisation under the UK City Deal model is achieved by maximising a lead objective, namely economic growth. A series of secondary program minima have also been identified and included in the prioritisation process in some Deals. These are included to ensure that non-negotiable policy outcomes are also accounted for (i.e. economic growth distribution, environmental impact etc.).

By applying a lead objective and a series of minima, UK cities have ensured that a transparent, quantitative approach is undertaken when selecting the relative ranking of projects for investment. This maximises the return on investment for all stakeholders.

This process has resulted in ***increased certainty for the development sector*** and clarity on the likely pipeline of infrastructure projects that the government will commit to delivering. This certainty has encouraged investment and associated economic growth in precincts surrounding nominated infrastructure priorities. The increased certainty from prioritisation also ***benefits government by providing clarity*** on forward financial projections and the sequential roll-out of spatial planning for development.

Infrastructure, Growth and Reward

Core Philosophy

Maximise infrastructure led economic growth to achieve positive employment, productivity and financial outcomes.

The City Deal model is underpinned by the premise that ***everyone benefits*** but not everyone benefits all at once, or even during the early years of the City Deal's implementation. City Deals are developed through careful and considered negotiations between all contributing stakeholders.

During the initial stages of these negotiations, stakeholders will clearly articulate expectations for the deal, including the nomination of key metrics, outcomes desired from the deal and the financial motivation for participation. These are refined over time to form the core tenets of the deal. In all deals agreed to date, economic growth has been identified as the leading metric, and the foundation for prioritisation and earn-back. This has proven to be as critical to the vision for the deal as it has been for the retention of stakeholders, with the transparency of the analysis and objectives a clear factor in ongoing participation.

The reward associated with finalising the negotiations on a City Deal concept can be broken into two clear incentives:

1. anticipated ***growth in government revenue streams*** beyond otherwise projected levels; and
2. ***reduction in long-term infrastructure funding shortfalls*** through the development of a new, sustainable infrastructure funding mechanism.

Stakeholder Engagement

Core Philosophy

Greater collaboration and accountability between stakeholders.

The UK City Deal model was initially developed to determine whether city regions could achieve a better infrastructure and economic outcome by acting collaboratively, rather than individually, and by engaging with central government and each other to do so.

In Greater Manchester there was a ***fundamental shift in the mindset of decision-makers*** to allow for consideration of changes to infrastructure funding, prioritisation and delivery. This collaborative approach to implementation allowed the City Deal concept to develop and, in turn, realise the current growth in investment and economic outcomes.

Formalised mechanisms to help facilitate this were developed at the outset to establish an agreed, fair and beneficial arrangement to guide implementation.
In Greater Manchester, the 10 leaders agreed:

- ***to establish the Greater Manchester Transport Fund (GMTF)***, designed to combine the various contributions being made to the program to the best effect; and
- ***to establish the Greater Manchester Combined Authority (GMCA)*** – in effect a new tier of government, accountable to a cabinet of the 10 leaders of Greater Manchester, with powers to deliver joint programs, starting with the transport fund program.

These new structures drove collaboration in both planning and delivery of enabling infrastructure. A change in perceptions on infrastructure delivery was coupled with the commitment to providing the necessary funds to ***realise a collective vision for the region***.

Stakeholders, through their commitment to implementing the City Deal, became more ***accountable to the outcomes identified by the deal*** and made the local investments necessary to maximise regional benefit.

Investment Accountability

Core Philosophy

It is a deal – a contribution of funding and support in exchange for a satisfactory economic and financial return.

Under the City Deal model, stakeholders agree to a certain set of responsibilities to ***ensure that the long-term goals of the deal are realised***. This commitment is a contract that ensures that stakeholders are accountable to supporting the long-term implementation of the deal.

The appointment of a regional governance body to oversee the implementation of the City Deal is an important factor in driving stakeholder and investment accountability. This body has provided a clear ***articulation of financial contribution commitments, responsibilities and expected outcomes***.

This increased investment accountability is ***further reinforced through public accountability*** to the delivery of the identified infrastructure plan by both the community and the development sector. The financial contribution commitments agreed to by the stakeholders governing the deal are made in order to maximise economic outcomes for the city. The public can then be aware that decisions made by the government during the course of the City Deal period should be made in line with the parameters of the City Deal. If decisions are not, they would contradict the notion of "economic growth" for the region. This accountability has proven key to the political commitment to realising the terms of the deal.

Features of City Deals

The City Deals that have been approved to date have a number of common foundation elements. These common elements can be collated into three core pillars for the model, namely:

- 'Real economy' prioritisation;
- Establishing governance and metrics; and
- Funding parameters.

These pillars and associated core elements are summarised in the table below. Each of the elements is discussed in further detail below.

Pillar	Core Element
Real Economy Prioritisation Prioritising projects by their impact on increasing jobs and economic output	**Objectives and Minima** **Scope and Prioritisation** **Metrics**
Establishing Governance and Metrics Program agreed based on performance of projects against key metrics	**Geography** **Governance Structures**
Establishing Funding Parameters Agreeing baseline budgets, payment by results and "self-help"	**Funding** **Benefit**

Real Economy Prioritisation

Prioritising projects by their impact on increasing jobs and economic output

Objectives and Minima

City Deals are heavily reliant on the establishment of a transparent and quantifiable measure of success. The determination of this measure is entirely dependent on the region and overall goal for implementing the City Deal; however, it needs to reflect a strong link to the type of infrastructure being prioritised, and the funding streams for government (i.e. taxation) that could ultimately benefit from the investment.

Beyond the leading objective of any City Deal, it is important that a number of minima are identified and built into the model to ensure a balanced approach to the prioritisation of infrastructure projects.

City Deals have a clear goal and quantifiable measures of success

In Greater Manchester, the lead objective of the City Deal was economic growth through GVA contribution. This was linked to transport, housing and regeneration infrastructure projects and programs. In addition, minima were developed, including CO_2 reduction and improved employment accessibility.

Scope and Prioritisation

The scope of infrastructure is specifically linked to the set objectives of the City Deal and region more broadly. Following the determination of scope, the prioritisation of infrastructure projects is critical to implementing a City Deal in any established region. The priority listing of infrastructure projects determines the order in which they are funded by the government through the City Deal model. It is important that prioritisation is undertaken using the set objectives and minima determined for each specific region in which a tailored City Deal is being implemented. The primary aim of prioritisation is to avoid attempts in the "end game" to redefine the criteria in order to change priority rankings, and subsequent alterations to the funding schedule for infrastructure projects.

City Deals involve a clearly defined prioritisation of infrastructure projects for the region. The highest ranking projects are funded and delivered first.

In Greater Manchester, infrastructure projects and programs were prioritised based on the objectives and minima related to GVA contribution and employment accessibility. As a result of these set objectives and minima, transport infrastructure projects were ranked more highly with respect to overall priority for the region.

Metrics

The monitoring of performance based on the set objectives and minima of the City Deal within a region is critical to the realisation of long-term benefits. Metrics are developed to both measure success and determine the scale of benefit realisation for all stakeholders involved in a certain City Deal.

City Deals' success is determined on the basis of a number of agreed metrics

Metrics in Greater Manchester were developed to measure the overall benefits gained through the City Deal. Investment in infrastructure was measured using metrics specifically designed for the type of infrastructure that was invested in. In Greater Manchester, the ultimate outcome that was measured was GVA/tax uplift. This was measured through understanding benefits and impacts such as business attraction, travel time savings and increased connectivity.

The metrics used in the Greater Manchester City Deal have been drawn on by other locations and adjusted to reflect the particular nature of the local geography. For example, West Yorkshire is more polycentric than Greater Manchester and has prioritised its investment program using program minima that ensures geographic spread of the additional employment opportunities created.

Metrics utilised by UK Deals

Feature	Greater Manchester	West Yorkshire
Context	Population: 2.7m GVA: £46bn	Population: 2.5m GVA: £43bn
Lead Objective	Maximise local jobs and productivity (GVA)	Maximise local jobs and productivity (GVA)
Programme minima	Reduction in transport CO2 emissions; above average increases in employment connectivity for most deprived 25% of wards (IMD basis)	Better than average improvement in accessibility for the most deprived 25% of LSOAs (IMD basis); employment accessibility in any district being at least half the average; aspiration to reduce transport CO2 emissions
Geography	Net impacts at the GM level	Net impacts at the GM level
Scope	Initially transport but expanding over time to other forms of infrastructure	All transport, plus some regeneration schemes at the margin

The program minima are the metrics that the program as a whole has to address, not each and every scheme. The benefits associated with infrastructure investment, and their relative linkage to the lead metric of economic (GVA) growth, are summarised in the diagram below.

Transport investment

- Changes in connectivity
- New and more productive business attraction

Housing investment

- Induced local employment
- Displacement of activity
- Changes in connectivity
- New and more productive business attraction
- Congestion alleviation – travel time savings
- Increased productivity

Regeneration investment

- Displacement of activity
- Changes in connectivity
- New and more productive business attraction

GVA / tax uplift

Establishing Governance and Metrics
Program agreed based on performance of projects against key metrics

Geography

The City Deal model is based on the identification of a functional geography, usually a number of smaller local regions that collaborate to better deliver infrastructure and achieve the set objective of the deal.

The geographic boundaries of deals generally align with either the metropolitan area or a broader, pre-defined regional geography. Alignment of City Deal geographies to the boundaries of existing governance entities simplifies any concerns about local authorities opting in or opting out of the City Deal.

City Deals have a regional and functional boundary

The City Deal in Greater Manchester brought together 10 local authorities: eight metropolitan boroughs and two cities.

Governance

The governance structures employed to implement a deal are just as important as the mechanical details of the deal itself. It is important to establish a suitable structure for the specified geography, to ensure that all stakeholders are held accountable to responsibilities and that benefits from the deal are realised and shared across the combined region.

It is important that any governance structure employed to deliver the deal within a region should hold statutory power. This will increase the likelihood of success and benefits generated through the implementation of the deal.

City Deals have a clear accountability to a single governance structure

Greater Manchester established a statutory combined authority (GMCA) accountable to the leaders of the 10 local governments which has the authority to levy the 10 authorities to deliver agreed programs. Additional entities were developed to facilitate delivery:

- *Transport for Greater Manchester (Committee);*
- *Business Leaders Council;*
- *Local Enterprise Partnership; and*
- *Local Transport Body for Greater Manchester.*

Real Economy Prioritisation
Prioritising projects by their impact on increasing jobs and economic output

Funding

The delivery of infrastructure, no matter the focus, is dependent on funding. Funding for the delivery of infrastructure under the City Deal model generally comprises baseline funding and earn-back funding. Baseline funding is funds contributed to a centralised funding pool by government and other stakeholders initially. Baseline funding provides certainty around future funding streams. Earn-back funds are generated through the implementation of the City Deal in a particular region and extend beyond the initial baseline funding commitments made by stakeholders.

Funding can also be generated through contributions beyond baseline funding from key stakeholders – this is termed "self-help funding". Self-help funding determines how far down the prioritisation list the City Deal will be able to fund.

City Deals have a number of funding sources, but contributions must be determined at the outset and committed to for the life of the deal

In Greater Manchester, baseline funding was commensurate with historical funding levels by central government. Self-help funding was generated through local governments deciding to capture funds through a combination of:

- *revenues;*
- *tolls;*
- *tax increment finance;*
- *levies;*
- *rational developer contributions; and*
- *dedicated local taxes.*

The self-help funds generated were divided amongst the local governments on a population pro rata basis. In Greater Manchester, earn-back funds are returned as further investment and economic growth. Earnings at the end of each five-year period are banked for the remainder of the 30 years of the City Deal, which allows Greater Manchester to borrow against these banked revenues to fund further infrastructure program delivery.

Benefit

City Deals seek to deliver an outcome whereby all stakeholders are better off. This is the foundation of the collaboration required between stakeholders. These benefits, inherently linked to the set objectives of the deal, are important to ensuring the ongoing support and participation of key stakeholders for the long term.

City Deals are a *deal* between stakeholders – benefits are realised across the board; however, these benefits may be realised at significantly different times during the deal implementation.

In Greater Manchester, there was a mutual agreement between all stakeholders that benefits gained through the City Deal would be shared appropriately across the regions. Importantly, the long-term realisation of benefits was established at the deal outset to ensure that all stakeholders were aware that "quick wins" would be limited.

Great Northern
Castlefield

UK Deals and Their Progress

Various City Deals are currently being implemented across the United Kingdom. More than 20 City Deals have now been signed with many more being negotiated.

This section investigates select examples of the City Deal implementation and highlights the key differences between deal applications across different regions. It also investigates the differing levels of maturity and progress of each deal. In addition to investigating the process undertaken in Greater Manchester, this section includes insight into the processes undertaken in:

- Glasgow City Region; and
- Leeds City, West Yorkshire and York Region.

Greater Manchester Experience

The Greater Manchester City Deal took a number of years to conceptualise and finally be implemented. This reflects the fact that it was the first deal to be adopted. The approach taken by Greater Manchester is broken down into the 10 key milestones below:

1	Establish baseline budget	→	Provided GM with clarity about "do nothing" funding
2	Lead metric (objective) and minima agreement	→	Established the "rules" and prioritisation objectives for all 10 GM authorities
3	Funding stream agreement	→	Determined the potential funding levers the deal might pull
4	Infrastructure project evaluation	→	Economic evaluation of projects whole-of-life costs and benefits
5	Develop economic model for prioritisation	→	Compared the results of the economic evaluation of each project
6	Prioritisation of infrastructure projects	→	Priority list of infrastructure projects are determined and signed off by all governing authorities
7	Local decisions on scale of self help contributions	→	Determined how far down the priority list funding would go
8	Develop earn-back mechanism	→	Agreement on benchmarks GM had to achieve in order to earn back contributions
9	Reinvest earn-back funding	→	Funding contributed to a rolling infrastructure investment fund
10	Establish regulatory body (GMCA) to maintain program delivery	→	Effectively governs the long-term delivery of the program and reinvestment of earn-back funding

Greater Manchester's earn-back deal (and thus the formula that benchmarks its growth) starts in 2015/16. This is 6 years after Greater Manchester's self-help investment started, and some 3 years after the first major deal-funded project was completed. This is the earliest Greater Manchester expects to see supply-side-driven growth impacts along the corridors benefiting from the investment.

Benefits from the City Deal model eventuate after a significant period of time. It is important to realise that the City Deal model is a long-term commitment for achieving longer term benefits.

Key Points:

- Transport investment focus
- Statutory combined authority governance structure – legally binding decisions
- Lead objective: maximise local jobs and productivity (GVA)
- Minima: reduction in transport CO_2 emissions; above average increases in employment connectivity for most deprived 25% of wards (IMD basis*)

Glasgow City Region

The Glasgow City Region (GCR) includes eight local authorities, namely Glasgow, East and West Dunbartonshire, Renfrewshire, East Renfrewshire, North and South Lanarkshire and Inverclyde.

On 4 July 2014, the UK Government confirmed it will provide £500 million toward a City Deal for Glasgow. The Scottish Government has agreed in principle to match this funding. Local governments across the region have committed a further £130 million, with further work around the terms of the City Deal to be confirmed over coming weeks.

Glasgow Economic Leadership was established in 2012 as an informal partnership to enhance the growth of the city region's economy; however, there is currently no single overarching strategy for infrastructure investment in GCR. When developing a prioritisation framework, the local case for using GVA as the lead metric for a fund is strengthened by its alignment with the city and city region's economic aspirations.

In principle agreement to a deal has been reached with local government, however further work to define the governance arrangements for the deal will be required. These arrangements will focus on establishing the objectives of investments and defining the fund's decision metrics, for taking decisions on overall investment priorities, and for determining the risk allocation and delivery framework. The governance framework will need to reflect both the geography of the fund and the range of parties involved.

Key Points:

- Instructive on three-tier government interactions
- Informal partnership between stakeholders – a more formal approach to governance is currently being developed

Leeds City, West Yorkshire and York Region

In July 2014, the Leeds City Region (LCR) Enterprise Partnership agreed to a £1 billion Local Growth Deal with the UK Government. The key differences with Greater Manchester are the LCR's more polycentric economic geography and lower physical density. These differences are reflected in a differing set of program minima, which emphasised the need for geographic balance in terms of improved employment opportunities, and in the nature of the projects that score highly in terms of GVA/£ of net cost.

The LCR is a partnership that represents 11 local authority districts that form a functional economic area. It is led by a legally constituted board elected from each of the 11 partner councils and operates on a "one member, one vote" rule. Although voluntary it is also seen as an effective governance structure but one lacking the strength of a combined authority.

As with Greater Manchester, this fund is focused on transport with the majority of funding being locally contributed.

Key Points:

- Transport investment focus plus some regeneration schemes
- Legally constituted board (voluntary)
- £1 billion of investment – majority locally contributed
- Lead objective: maximise local jobs and productivity (GVA)
- Minima: better than average improvement in accessibility for the most deprived 25% of LSOAs (IMD basis*); employment accessibility in any district being at least half the average; aspiration to reduce transport CO2 emissions

* The IMD is the UK's Index of Multiple Deprivation which is a Lower layer Super Output Area (LSOA) level measure of multiple deprivation. This measures seven indices of deprivation: income; employment; health and disability; education, skills and training; barriers to housing and services; living environment; and crime.

Key Considerations

The UK City Deal approach to infrastructure funding has proven successful in delivering increased economic activity, infrastructure funding and development certainty in a number of cities and is continuing to be rolled out across the United Kingdom.

The application of the model to Australia, however, should not represent a wholesale transfer of the UK approach. Rather, regions considering a new approach to infrastructure funding should consider developing an approach that is suitable to their city/region.

Key areas that regions need to consider include the core elements of the boundaries that the model would be confined to; the approach that would be taken to prioritise infrastructure; and the framework that would be applied to negotiate funding parameters between all parties.

Effective early governance will be central to the success of any domestic model. Once stakeholders have agreed to the terms of a suitable governance approach they will need to consider:

1. ***negotiation of the boundaries of the potential model*** *– i.e. will the 'in-scope' infrastructure be regional, sub-regional, transport specific, urban regeneration etc.?;*
2. ***agreement on key metrics and an approach to economic prioritisation*** *– i.e. what are the tools that we need to measure the metrics we have identified, which are suitable for the infrastructure scope we have nominated?; and*
3. ***negotiation of the funding parameters for the potential model*** *– i.e. who will contribute what levels of funding and in-kind support, and how will any earn-back negotiation be framed?*

Early analysis with stakeholders in Queensland has indicated that these queries can be resolved through effective negotiation and the involvement of key parties. This experience will provide a foundation for further consideration of the applicability of the model to other states and regions across Australia.

Glossary

BCR	Benefit Cost Ratio
DfT	UK Department for Transport
GCR	Glasgow City Region
GM	Greater Manchester
GMCA	Greater Manchester Combined Authority
GMTF	Greater Manchester Transport Fund
GVA	Gross Value Added
IMD	Index of Multiple Deprivation
LCR	Leeds City Region
LSOA	Lower layer Super Output Area
UK	United Kingdom
WY	West Yorkshire

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