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The UK City Deal Reforms

Department of Infrastructure and Transport

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The UK City Deal Reforms

- The pre-reform world
- The key reform building blocks:
  - Funding baselines
  - Self help
  - Rethinking appraisal: The “new transport economics” and “Single Assessment Frameworks”
  - New ways of making decisions: think “programme” not “project”
  - The tax dividend and “Earn Back”
  - The City Deal philosophy
- The Greater Manchester Transport Fund Case Study
- Some key themes

The pre-reform world

- Project pipeline 20 plus times the available central budget
- Bidding rounds, beauty contests and a lot of shouting
- Dependency culture
- User benefits etc (at best) an incomplete proxy for what really matters
- Appraisal a hurdle between you and what you want, not a way of understanding what you should want
- No relative value for money assessments, and no objective basis for choosing between place
- Emergence of WEBs, but ……
- First steps towards reform…..starting with the first regional transport budgets
- And then the money ran out…..with capital spend outside London down by 50% to 75%
- Initial backward step, then renewed pursuit of reforms as Greater Manchester showed the way

Baseline Budgets and Self Help

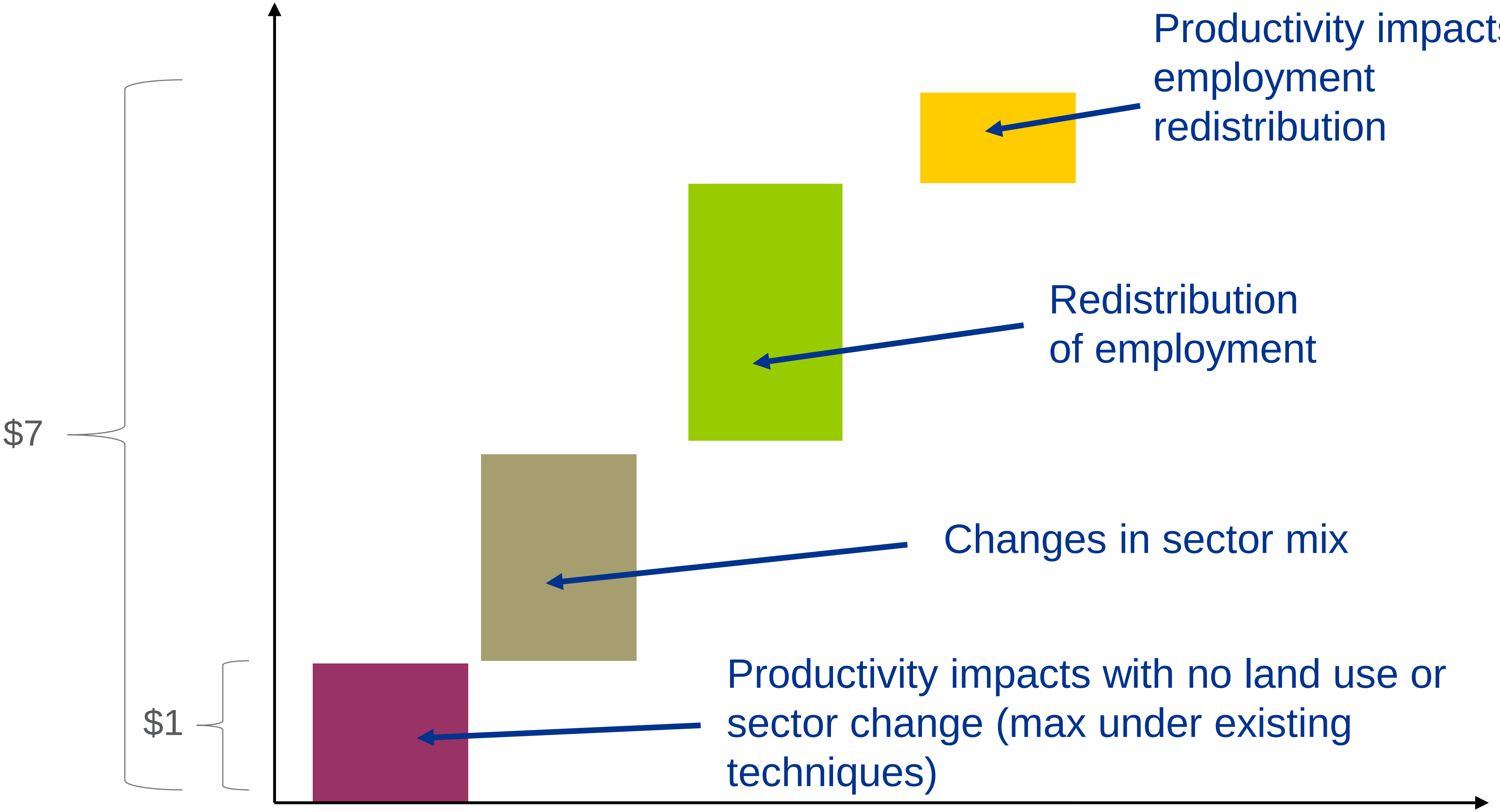
- For Cities with deals baseline provides for a 10 year view on transport funding. Cross boundary funding remains central for now
- Baseline funding formulaic – per capita (outside London)
- Now being widened to all forms of capital, but with a competitive element – ie per capital plus depending on quality of growth plans
- Aim to drive a fundamental shift in behaviour and genuine thinking about:
  - Priorities, especially growth; and
  - Scope for self help:
    - Value capture (eg Greater Cambridge expect to at least triple the buying power of their capital allocation through development levies)
    - User fees – rationale now clear for tolling a road, and for investment led fares strategies (eg Greater Manchester, where a fares strategy is paying for 25% of the total programme)
    - Savings in non-capital programmes and local taxes (eg Leeds City Region where this is quadrupling the buying power of the baseline budget

The New Transport Economics

- Traditional transport appraisal assumes the real economy (jobs and productivity) is fixed – its really all about the time savings
- WEBS seen as an add on, often “below the line”
- The “NTE” approaches are radically different:
  - The focus is solely on the wider impacts (time savings etc discarded)
  - Jobs, productivity (and thus tax revenues) are modelled explicitly
  - Issue is net impacts at a large geography – eg net impact on GVA (local GDP) at the level of the whole of Greater Manchester
  - Principally a prioritisation tool: “if I want to maximise the growth potential of my city which mix of schemes should I buy?”
- Today in the UK you will be hard pressed to find a large city that uses anything else
- Now an entry level requirement for the more serious city deals

NTE versus WEBs

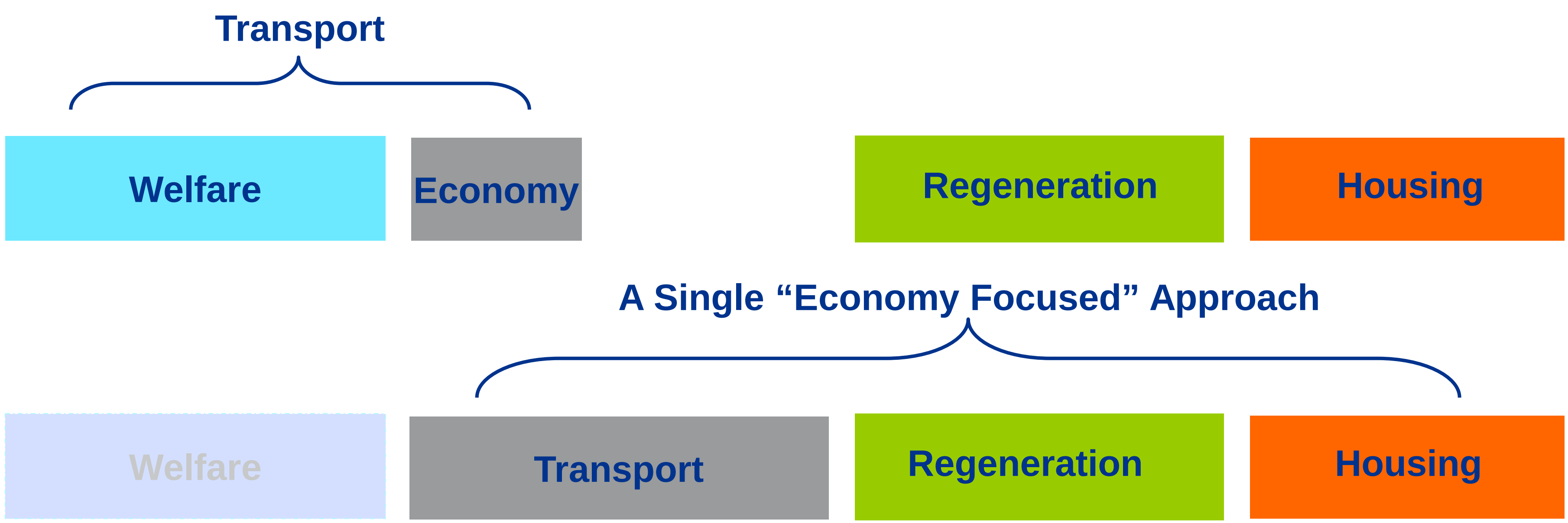
City Region GVA Impacts, NTE versus standard approach



Source: 2010 KPMG rail study for northern English cities

Single Assessment Frameworks

- Logical extension of the NTE approach
- Supply side impacts are not unique to transport
- What is required is a level playing field focused on net GVA impacts – means changes for regeneration and housing appraisal as well as transport
- Allows for capital budgets to be allocated in a way best calculated to promote growth
- Adopted by GM, now the emerging standard for other large cities

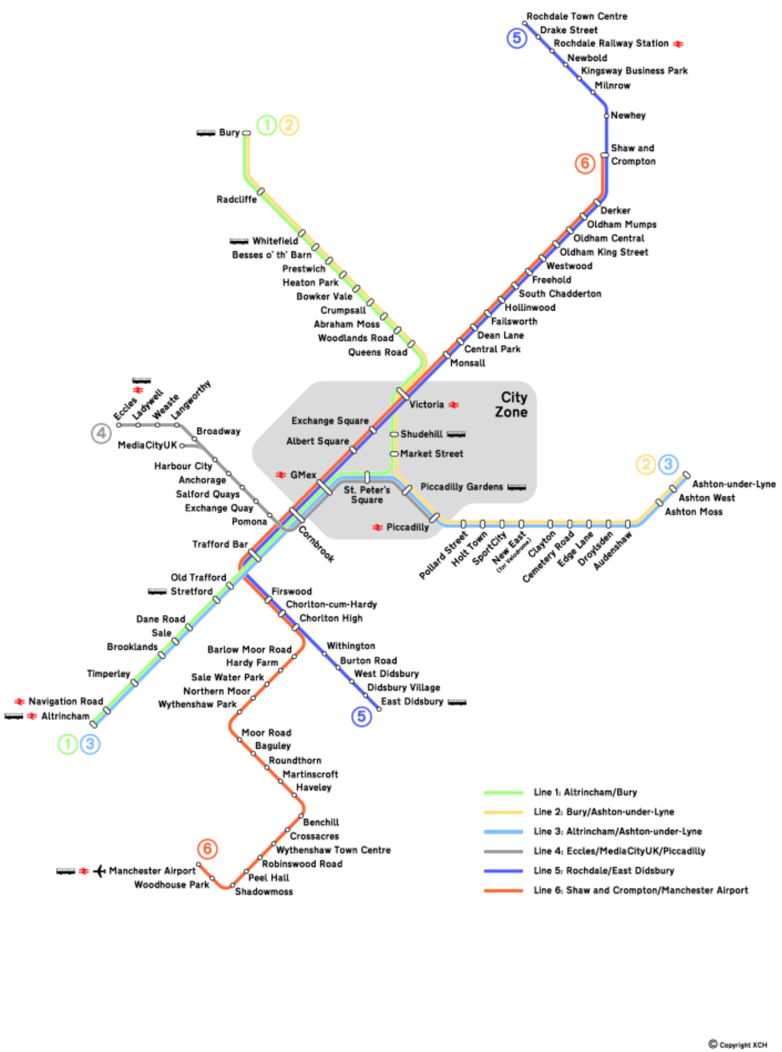


Self Help and the Fund Approach

- Understanding the implications of baseline funding for growth is only the start
- Additional funding is also required
- This has resulted in the establishment of “self help” city region infrastructure funds
- These top-up the devolved baseline budget with local revenue streams, including significant top-slices of existing current programmes, developer and other contributions which are then allocated to a fund
- The fund then secures finance to translate the revenue streams into capital buying power which is then allocated on a prioritised basis focusing on a whole 10 year plus programme
- Local decision makers decide:
  - the rules of the game – eg the basis for the prioritisation
  - How much local funding to put in – ie how far down the prioritised list to go through self help
- They do not decide the scheme rankings – this is done independently

Greater Manchester Transport Fund

2017/18 Metrolink Network



- Self help on a massive scale (10x base case 10 year budget)
- Some £2.0bn rather than £0.2bn
- Programme strictly prioritised on a net GVA (jobs and productivity) at the GM level per £ of net cost
- But with "programme minima" (eg better than average improvements in employment opportunities for bottom 25%) to ensure balance at programme level
- Rules agreed by the 10 leaders of the 10 GM local authorities in advance
- Money committed in the end game (pro rata to population) by unanimous vote
- New delivery structure (Combined Authority) put in place to deliver – accountable to a cabinet of the 10

Tax Increment Finance and Earn Back

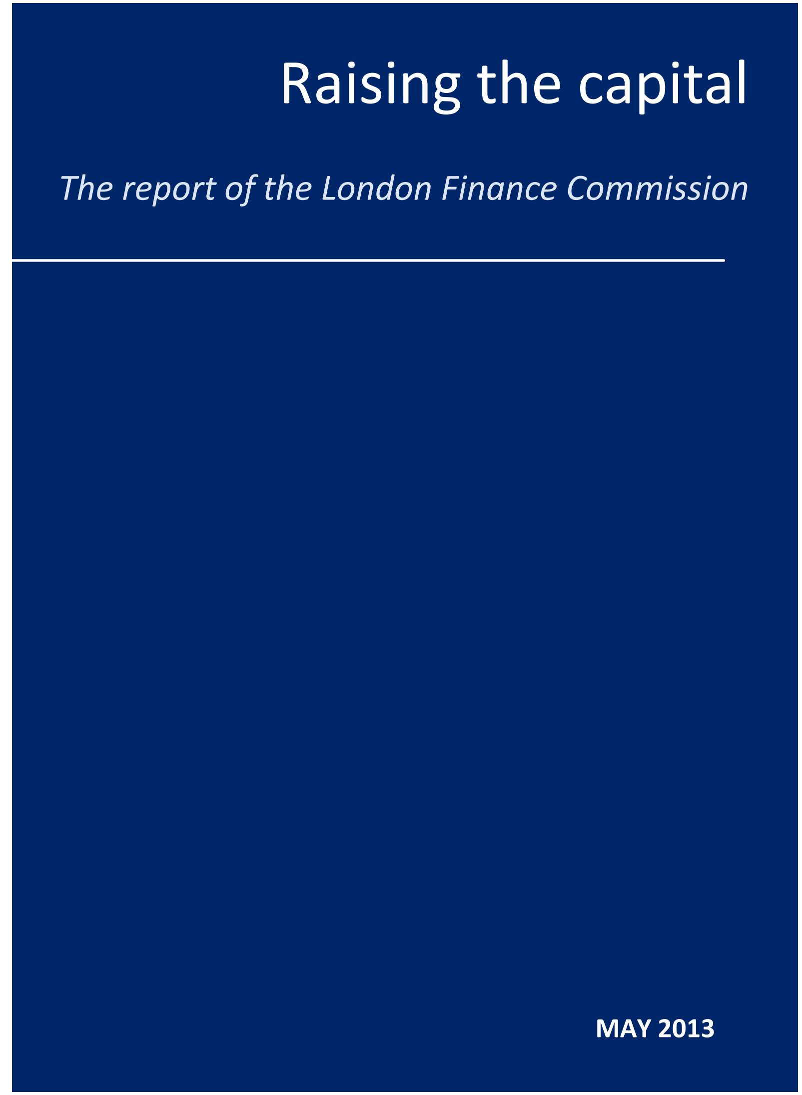
- GM Story does not end with initial decisions on their self-help fund
- They have negotiated a ground breaking deal with the UK Treasury which is really a new form of Tax Increment Finance
- Focused on the tax GM creates through its self help
- This is not about actual tax devolution (and it is outside all the standard grant formulae etc) but a revenue formula which reflects the extra tax the Exchequer will get as and when GM's self help delivers results
- The formula is based on net growth at the GM level (ie the same basis as GM's prioritisation) because this means a high proportion of it will be net national, and against benchmarks (ie growth that would happen anyway)
- GM can only get back what it has put in, and has committed to reinvest every penny it earns back in additional GVA prioritised investment
- Means GM's fund is genuinely rolling one, with the step up in annual investment a function of: (a) the degree of initial local self-help; and (b) additional growth delivered
- GM's first 10 year programme now likely to be £2.4bn to £2.6bn rather than £2.0bn

City Deals

- The GM approach has proved the catalyst for a whole new dialogue between UK cities and central Government, built around a City Deals process
- Eight initial deals for the largest English cities were concluded last year, of which GM's was the most radical
- Now 20 more due this year, with the first 8 widening and deepening
- Special Central Government Unit established to sponsor each deal, and a Treasury Minister put in charge of the process
- All the deals are bespoke but with one central theme – a self-help city "offer" focused on growth, and a central government "ask" reflecting the additional national value created
- Critically, this is <u>not</u> about:
  - everywhere moving in step – the whole idea is that those that step up and deliver get rewarded for doing so and act as a beacon for others to follow; nor
  - the better off cities capturing the surpluses they already create, but any city sharing in value it creates by going the extra mile
- Versions of the GM "Earn Back" deal feature strongly

Where Next

- London has broken cover and announced it wants its variant of the GM deal
- The process is expanding into Scotland, where the partnership will be three way: city; Scottish Government; UK Government, at least until the independence referendum next autumn
- Following finalisation of the details of the GM formula (announced last month), negotiations have started with the Leeds City Region. Sheffield City Region and Greater Cambridge will be next, and others are looking to catch up
- The three leading cities GM, LCR, SCR are now negotiating with government to devolve the northern rail network to a joint northern city alliance



Some key themes

- Long term funding baselines are a critical part of any grown up conversation between tiers of government
- Think 10 year (fully funded) programme, not one project at a time
- The growth focused level playing field approach is critical to maximising returns and generating buy-in
- Self-help, additionality and a focus on net impacts at a large geography can help unlock a tax increment partnership between tiers of government, and a deal based approach that rewards innovation and local leadership rather than holds it back
- No getting away from the need for local leadership on the one hand and vision on the part of higher tiers of government on the other: two way additionality is critical
- The business community can help make the case, but self-help is not just a public sector issue – value capture is an important part of the package

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