



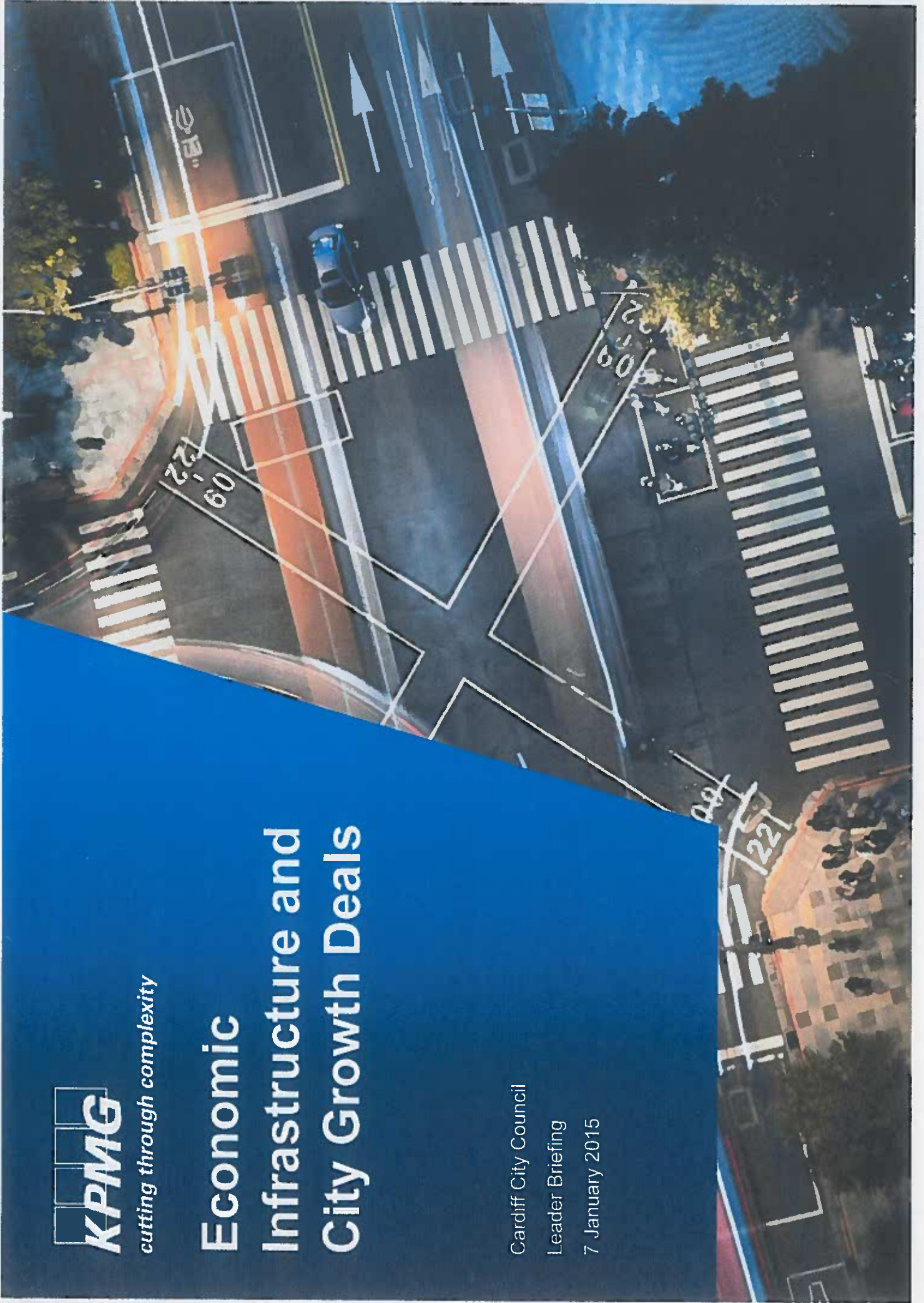
cutting through complexity

Economic Infrastructure and City Growth Deals

Cardiff City Council

Leader Briefing

7 January 2015



Three Main UK City Region Funds: Facts on a Page

Greater Manchester

Geography: 10 local authorities – Population: 2.7m – GVA: £51bn
Governance: TGM, 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
- Secondary – Reduction in transport CO2 emissions; Above average increases in employment accessibility for most deprived wards

Economic benefits: £3.8bn p.a. (2009 prices) in GVA by late 2020s
Annual GVA uplift per £1 of capex: £1.3 (2009 prices)
Job Impact: +37,000
Funded by:
 DfT devolved: £0.8bn
 -Growth/City Deal Income: £0.75bn (£0.45bn Earmark; 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 Earmark

Leeds City Region

Geography: 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 (including phase 1 NGT Scheme)
Investment Period: 11 years starting now
Type of infrastructure: Transport only
Decision metrics:

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

Economic benefits: Up to £2.8bn p.a. (2011 prices) in GVA by mid 2030s
Annual GVA uplift per £1 of capex: £1.8 (2011 prices)
Job Impact: +23,000
Funded by:
 -DfT devolved and scheme specific: £0.35bn
 -Growth/City Deal Income: £0.8bn (£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

Geography: 7 local authorities – Population: 1.7m – GVA: £38bn
Governance: Risk sharing deal between authorities
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
- Secondary – Employment accessibility in any district at least half the average

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

Annual GVA uplift per £1 of capex: £2 (2011 prices)
Job Impact: +28,000 at G&CV level
Funded by:
 -HMT: £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

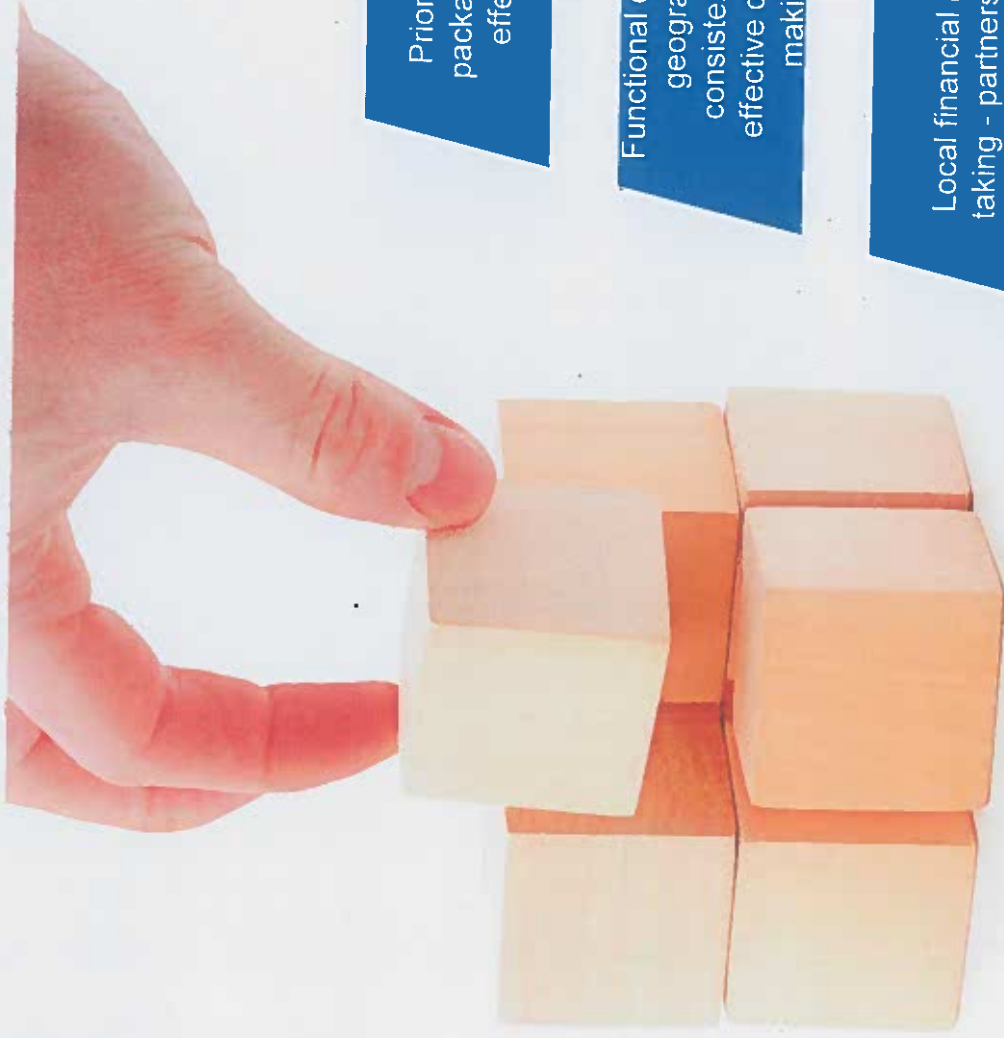
Note: Fund plans as of 1 December 2014. WY+Y figures subject to local decisions in the coming weeks. All prices nominal unless otherwise stated. Local costs/contributions assume delivery targets met.

What does it take? - building blocks

Agreed objectives and minimum outcomes

Resources

Operationally effective Governance



Prioritisation and package building – effective tools

Functional economic geography consistent with effective decision making

Local financial risk taking - partnership

Infrastructure funds – a process example

Scoping	Gateway 1	Gateway 2	Gateway 3	Gateway 4
<p>An initial exercise design to understand the possible parameters of the proposed Fund</p>	<p>Agree the types of investments/sectors for inclusion in Infrastructure Fund/City Growth Deal and consider other interventions aimed at dependency reduction</p>	<p>Test/demonstrate economic modelling suite and sign-off that it is fit for purpose</p>	<p>Present prioritisation of schemes against lead metric on a net cost basis (e.g. including match funding and other offers)</p>	<p>Present final shortlist of 'compliant' funding scenarios – i.e. those that maximise the lead metric and deliver the minima</p>
<p>Can cover:</p> <ul style="list-style-type: none"> ■ Geography/partners ■ Objectives and minima ■ Key metrics and forecasting tools ■ Types of interventions ■ Scale of fund [options] ■ Question of top line growth and/or dependency cost reduction 	<p>Agree objectives/metrics (including programme minima) and metrics for appraising performance of investments/interventions and sign-off on economic modelling approach to be used</p>	<p>Initial sift of long list and sign-off on medium list of investments/interventions</p>	<p>Refine package to ensure that programme minima are delivered at each funding scenario</p>	<p>Decisions on which scenario to be taken forward as final Fund/City Growth Deal proposition based on degree of local funding commitment</p>
	<p>Begin to develop proposed Governance and joint working arrangements [where there are multiple parties]</p>	<p>Agree funding scenarios to be developed</p>	<p>Iterate with potential funders and government on co-funding/devolution propositions and PbR options</p>	<p>Decisions on the necessary delivery governance reforms (if applicable)</p>
	<p>Agree instructions for working up individual activities/ investments/interventions</p>	<p>Engage with potential partners and government on scale of contribution / funding devolution available and scope for PbR</p>		
	<p>Define local funding sources 'in play' (but not decisions on the level)</p>			

Payment by results for infrastructure funds – the model



Payment by Results addresses the disconnect between local risk taking and central government reward through taxation

Payment by results for infrastructure funds – some details

- The aim of an economically focussed infrastructure fund is to boost economic growth over the counterfactual (i.e. what would have happened absent the fund) within a defined economic geography;
- The economic geography has to be of sufficient scale so that growth impacts are close to net national growth (i.e. that displacement is minimised);
- Ranking and prioritising potential investments based on forecast GVA maximises the expected impact of any programme of investments and presents a level of sophistication beyond what can be achieved centrally;
- Balance can be provided to a programme with multiple stakeholders by setting programme minima – that is minimum outcomes that each partner must receive. These are typically defined as % improvements in employment accessibility relative to the average or similar measures;
- Programmes can be iterated to deliver maximum GVA within the constraints of the minima;
- Risk is taken locally on the outcomes of the fund investments, typically through the way the programme is financed;
- Payment by Results is a way of rewarding success borne out of local risk taking

Lessons

- The fundamental issue is not the methodologies, but the questions they are supposed to address – ie is it maximum employment impacts across integrated infrastructure programmes?
- The best available answer to the right question is better than a perfect answer to the wrong one
- It is essential to define objectives in a way that can drive decision making – limited and focussed
- It is impossible to define an economic objective that can drive decisions without reference to a geography (ie where am I looking to deliver additional employment)
- This means the redistribution question has to be addressed head on
- This means a way of incorporating “balanced growth/social impacts” has to be built in from the start
- These sorts of objectives work best at the programme level
- This means a 10 year plus view
- The way in which decisions are made matters hugely – GM, WY, Glasgow put a lot of effort into agreeing up front what the objectives would be, how they would be measured and how the funding “end-game” decision making would work
- Prudential borrowing can unlock the whole life cost approach – ie the private finance philosophy without the costs of private finance, but strong project discipline is required – that means significant and experienced resources (scale required to deliver 15-25 projects of £100m each over a 10 year period)



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