



City Deal for Belfast Region Workshop

24th May 2017

Riddel Hall, Conference Room 2

2.30pm-5.30pm

Chaired by: John Hansen, Partner & Head of KPMG in NI





Welcome & Introductions



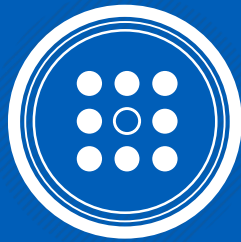


Workshop Programme

1. Welcome & Introductions



2. Background



3. The Current UK City Deal Landscape



4. Interactive Session



5. Next Steps & Wrap up





City Deal for Belfast Region

Outline Programme



1. Welcome & Introductions

Workshop Chair (John Hansen, Partner & Head of KPMG in Northern Ireland)

10 minutes



2. Background

Suzanne Wylie, Chief Executive
Belfast City Council

- Recap on work undertaken to date;
- Objective of the Workshop; and
- The Cost of Inaction – Dr Eoin Magennis, UUEPC

10 minutes



3. The Current UK City Deal Landscape

Lewis Atter, Partner, KPMG &
Jenny Stewart, Partner KPMG

- Key rationale for a UK City Deal;
- Current UK City Deal trends;
- Objectives and Geography
- The role and importance of economic prioritisation;
- What are HM Treasury looking for in a City Deal?; and
- Update on the progress of signed UK City Deals.

45 minutes



4. Interactive Session

Groups facilitated by KPMG City Deal Advisory Engagement Team

- What is your Vision for the Belfast City Region?
- What problems should a City Deal for the Belfast Region seek to address?
- In your view, what should be the objectives of a City Deal for the Belfast Region?
- What should be the geographic boundary of a City Deal for the Belfast Region?

1 Hour
45 minutes



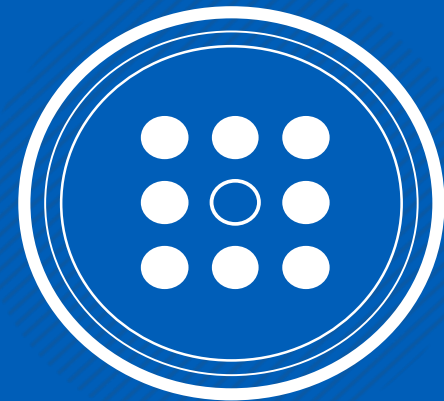
5. Next Steps & Wrap up

- Discuss potential of a City Growth Commission; and
- Timescales

20 minutes



2. Background





City Deal for Belfast Region

Background

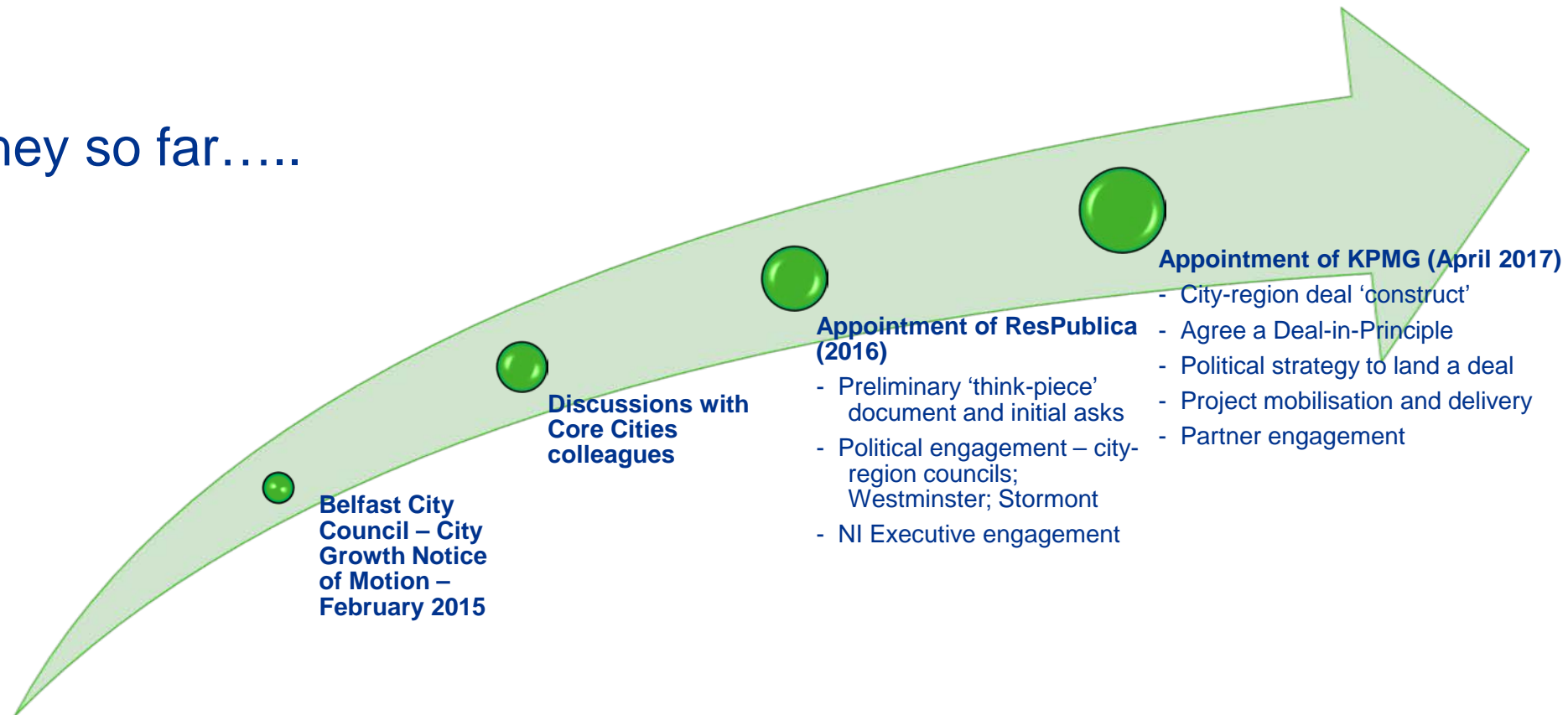
Suzanne Wylie, Chief Executive
Belfast City Council

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10 minutes



Journey so far.....





City Deal for Belfast Region

Background

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10 minutes



Objectives of the workshop

- Learn about process including economic prioritisation and HM Treasury requirements
- Examine in more detail the construct of a ‘deal’ – defining our collective ambition and objectives
- Explore potential geographies
- Understand potential City Partners’ emerging priorities
- Agree next steps



Belfast City region and the cost of inaction

24 May 2017

Dr Eoin Magennis, UUEPC

ulster.ac.uk

Steady recovery and positive momentum in the City's economy...



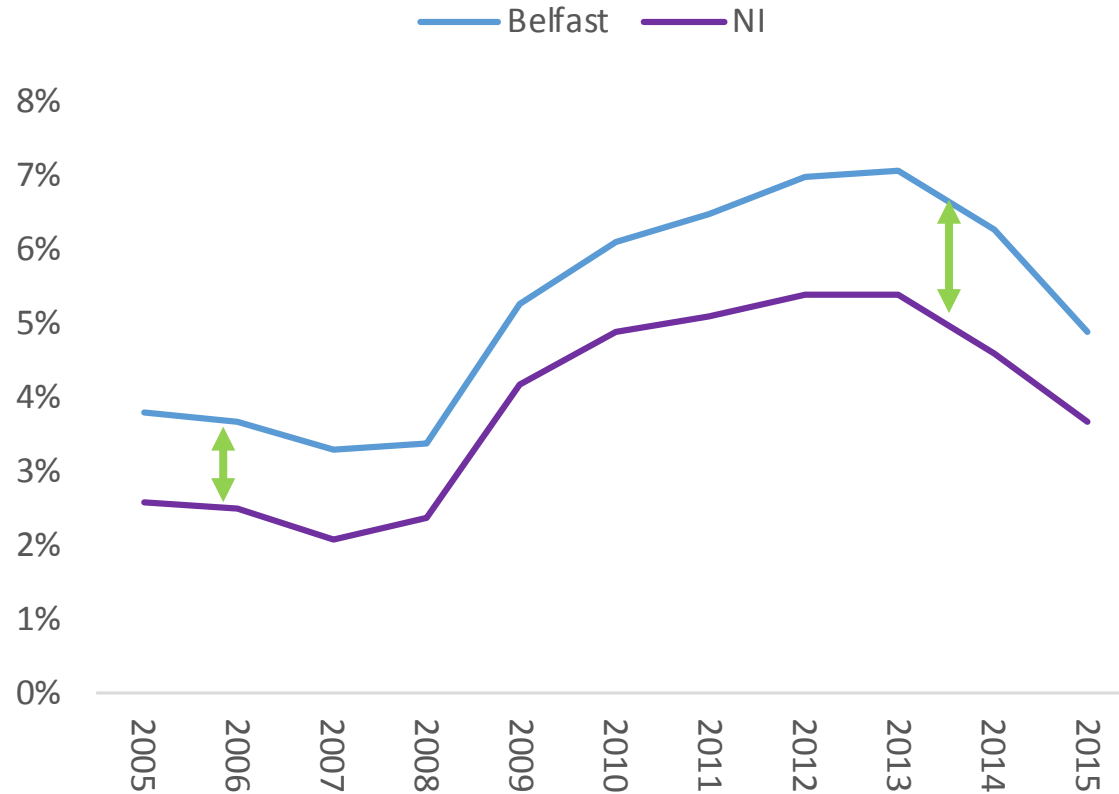
Source: DETI Census of Employment & UUEPC



Driven by the city's performance in inward investment, the knowledge economy and some entrepreneurship measures

...despite this the challenges remain

Claimant Unemployment Rate (%16-64), Belfast vs. NI (2005-2015)

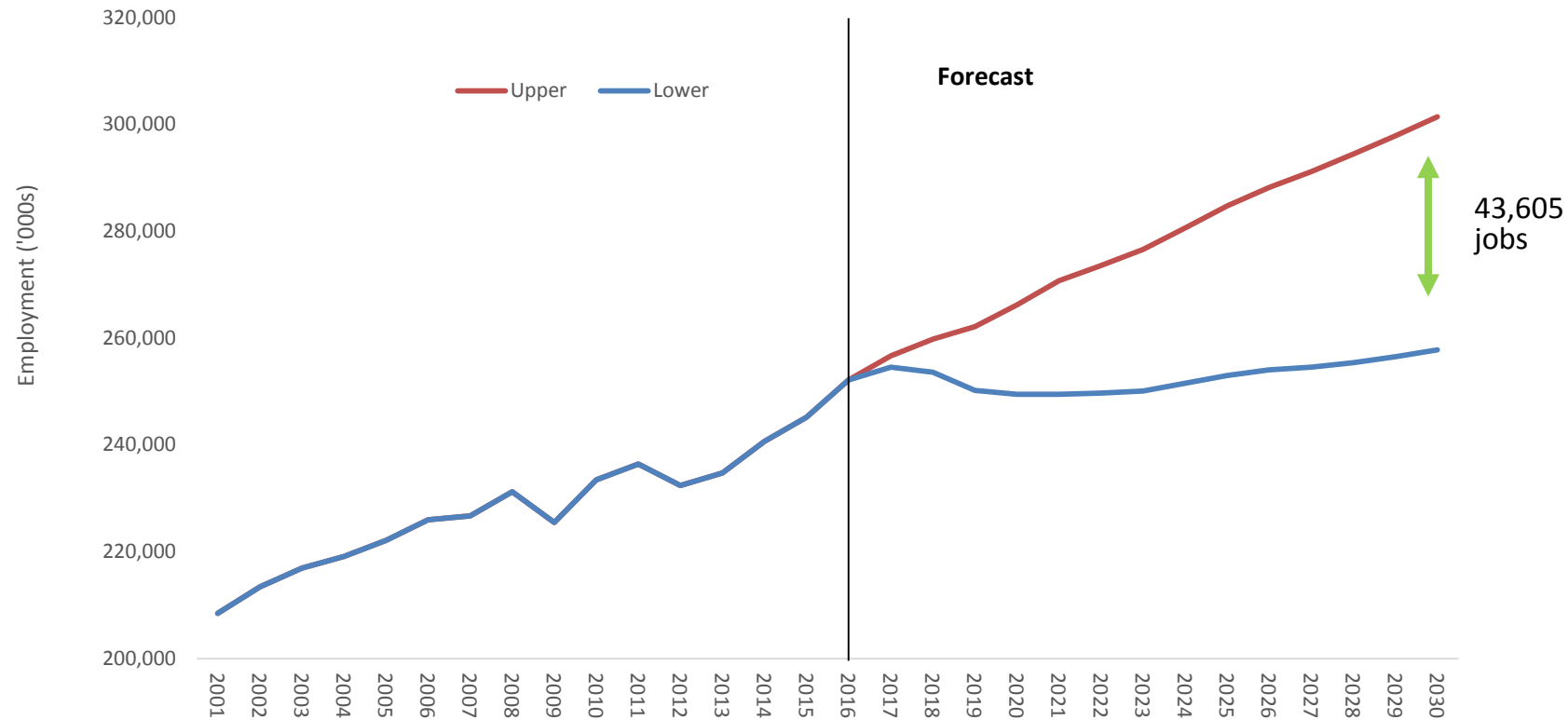


Source: NISRA & UUEPC



Higher unemployment rates, higher inactivity rates (31% vs 27%) and striking levels of inequality between areas of the city

Significant opportunity costs of policy inaction



Source: UUEPC



Largest differences appearing in high value ICT and Professional/Scientific Services sectors



3. The Current UK City Deal Landscape

Lewis Atter, Partner, KPMG London
Jenny Stewart, Partner, KPMG Edinburgh



Coverage

- Rationale – local and national
- Trends and recent developments, including some Case Studies – note focus will be on the larger deals, the so called “£1bn plus club”
- What are HMT looking for?
- Objectives and Geography
- Role and importance of economic prioritisation



Rationale



Local “offers” as well as “asks”:

- Particularly true of the larger deals – i.e. the genuinely £1bn plus club;
- The local offers have been about;
 - Governance reforms (CAs and Metro Mayors);
 - self help local funding (especially the biggest deals);
 - local risk taking under the Payment by Results/Earnback/Gainshare;
 - linked to this risk taking:
 - disciplined decision making (objective prioritisation of bang for buck);
 - growth friendly spatial strategies;
 - investment in delivery; and
 - public sector reform/better targeting of resources (e.g. skills).



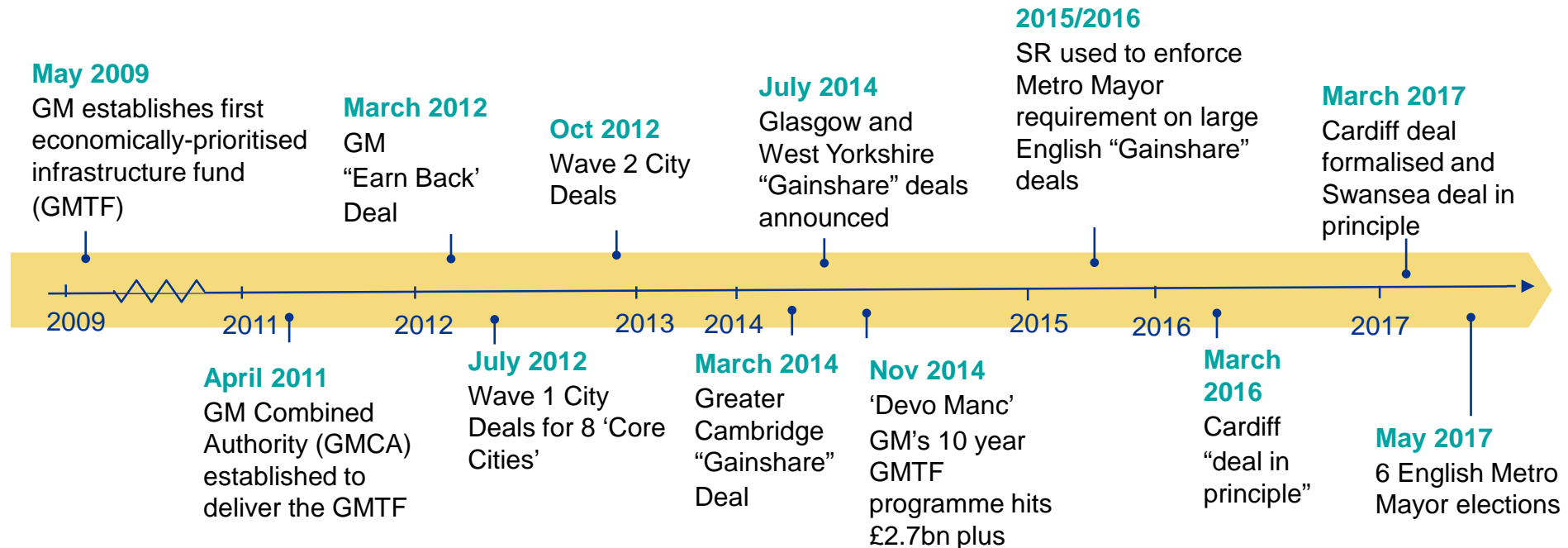
Better bang for buck locally and nationally, but also:

- Rationing mechanism for HMT – both money and “difficult” powers;
- Good headlines, with costs spread out over 20-30 years;
- Proxy for fiscal devolution;
- Helped shine a light on the additionality question and need for appraisal reform;
- Prompted search for new funding sources to top up the self-help; and
- A raft of assurance procedures.



The City Deal Timeline

- The devolution and city deal agenda is constantly evolving: DCLG's Cities and Local Growth Unit has the policy lead, but HM Treasury remains the 'gatekeeper' and fiscal events have been the usual slots for announcements, although exceptions – eg Glasgow and Clyde Valley
- Heading for 30 deals, but huge difference (up to factor of 20 in investment per capita) between the top and the bottom
- Getting into the genuine £1bn club is challenging
- Deals in principle have helped get places started, but this really only postpones much of the hard work



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Case Study - Greater Manchester

Key facts: 10 local authorities – Population: 2.7m – GVA approaching £60bn

Governance: AGMA, Transport for Greater Manchester (GM) Combined Authority, City Region Mayor from May 2017

Fund size: £2.75bn to date, probably ~£3bn by 2020

Investment period: 11 years (i.e. started in 2008/9)

Type of infrastructure: Transport, but devo Manc deal widens (£300m rolling housing fund is additional to the £2.75- £3bn above)

Decision metrics (more on this later):

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

Economic benefits: On £2.75bn: £3.6bn p.a. (2009 prices) in GVA by late 2020s/early 2030s; 37,000 jobs

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

Funded by:

- Devolved: £0.6bn
- Growth/City Deal income: £0.75bn (£0.45bn Earnback; subject to performance)
- Local contribution: Capex: £1.35bn - £1.2bn borrowed; £0.15bn of LTP top-slice
- Local contribution: Cost of carry: £1.2bn (total local £2.4bn over 30 years)

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

Case Study – Glasgow and Clyde Valley

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

Governance: Risk sharing deal between authorities and joint oversight under agreed rules – eg risks divided pro rata to investment “on patch”

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

Investment Period: 10+ years

Type of infrastructure: Transport, regen, and housing

Decision metrics:

- Primary – Maximise GVA
- Balance – Employment accessibility/opportunity in any district at least half the average

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

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

Funded by:

- HMT: £0.5bn (£0.375bn outside Barnett, 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 depending on performance

Earnback and Gainshare

GM Earnback Deal:



- Genuine attempt at a proxy for fiscal devolution
- Rationale was that extra locally funded and delivered growth (the share that is net national) translates into additional tax receipts, but to Exchequer not to GM
- Proposition therefore that GM should be allowed to “earnback” its local funding (£1.2bn of capital) as/when it translated into additional growth
- Proposition was a simple formula that gave GM a share of growth
- Deal agreed in principle in 2012, but then came unstuck

Gainshare:



- Replaced Earnback and is the basis of all the £1bn plus deals
- No requirement for up front local contribution
- But, money paid over 20 or 30 years, so local funding necessary to turn it into 10 year programmes and some local capital tends to be required to secure best deals (e.g. Glasgow and Cardiff)
- Delivery and extra growth still required, but assessment by an independent panel at 5 yearly gateways
- Independent panel in place and was due to consult cities on basis for measuring growth and delivery this spring/summer
- Underlines importance of economic prioritisation, supporting policies and delivery, but also wider balance given where risks lie

Objectives and Geography

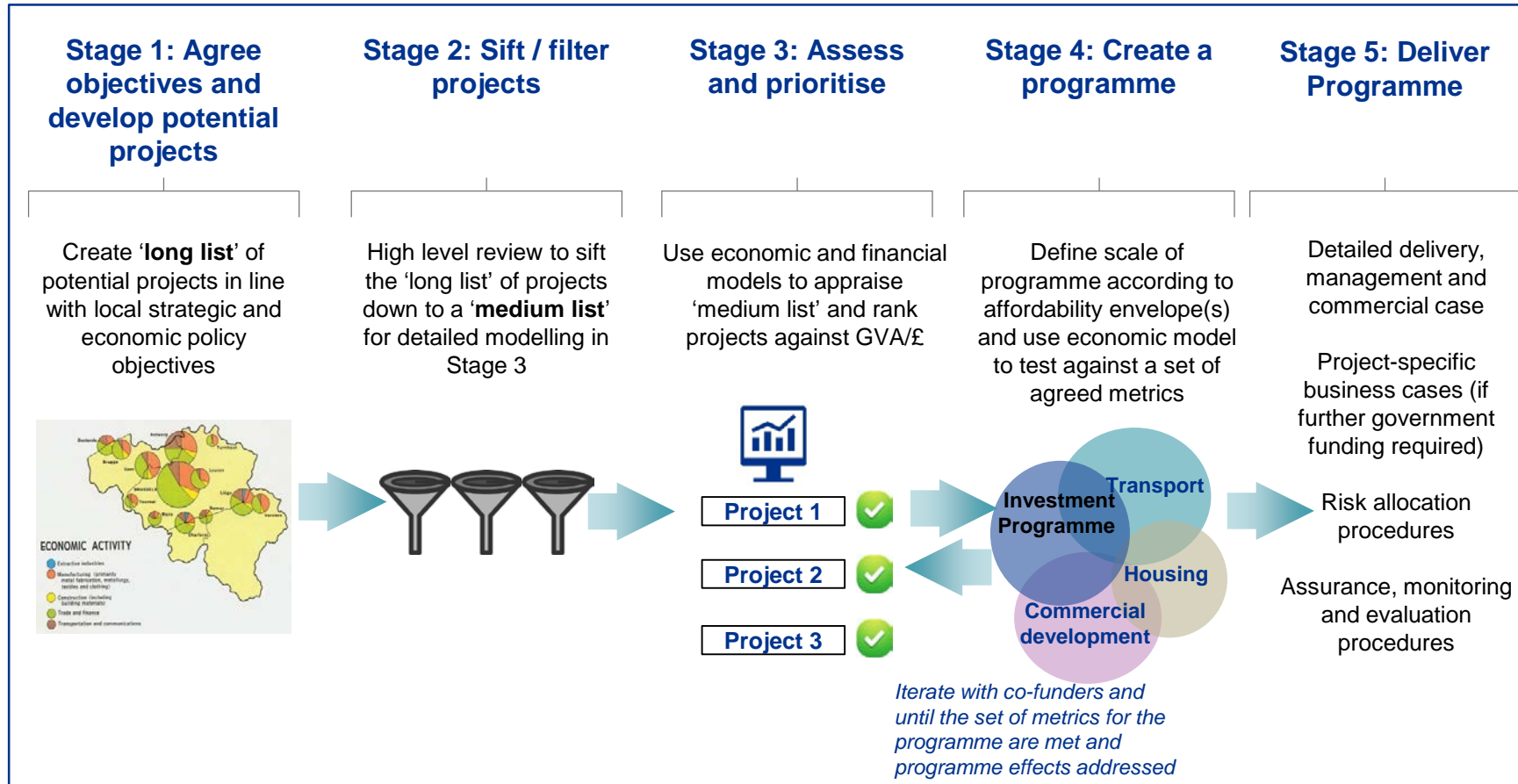
- Cannot really separate these two issues
- Overall principle has emerged of “largest geography consistent with economic geography and effective governance”:
 - Important interactions between the demand for labour and its supply in maximising sustainable growth point to capturing most commuting, hence a JTW area focus
 - The larger the geography the more of any net impact will also be net national (eg Glasgow and Clyde Valley (G&CV) versus Scotland as a whole statistics above). This helps with additionality case to HMT because you are prioritising something closer to net national growth
 - A larger geography helps justify a large headline figure and helps manage risks
- But, brings with it a need to balance of cost/risk and reward across the geography and for particular communities. This can only be done at the programme level
- GM pioneered a way through this, with bespoke versions in other city regions (G&CV, West Mids, West of England (WoE), South Yorkshire, West Yorkshire so far):
 - Involves a lead metric (usually net GVA at whole city region level), with the objective to maximise this
 - Programme level rules to ensure balance – e.g. better than average improvements in employment opportunity for the bottom 25% of wards, and no District to get less than X% of the average improvement in employment opportunity
- Ideal is to agree these rules up front before objective analysis is undertaken of individual schemes and the programme

Role and Importance of Economic Prioritisation

- Maximising the impact of a given amount of investment on an economy is not straightforward
- Doing so with social, geographic and environmental balance is harder still
- It is also a good idea to satisfy the independent panel that every effort was made to maximise the impact of gainshare money spent
- And objective analysis can help locally, if the right metrics are agreed up-front
- Traditional techniques (whether transport appraisal or regeneration based) cannot address these questions - they are particularly poor at addressing interactions (e.g. between investment and planning) and programme effects
- The reality is that a programme is not the sum of its parts: when Glasgow and Clyde Valley (G&CV) first looked at their programme as a whole it delivered less than ½ the sum of the individual schemes in terms of net growth, with a significant amount of investment adding nothing at the margin. This resulted in them analysing the programme as a whole in order to get the missing growth back while retaining balance
- Techniques are available to address these issues, but they take time and money
- This underlines the value of the deal in principle approach – e.g. WoE, who did their deal in principle (inc £900m of gainshare over 30 years) in 2015 without promising individual schemes, are now going through a rigorous analytical exercise using best in class techniques commissioned after the deal in principle to allocate this and other funding on a lead metric plus programme minima basis.

Illustrative Prioritisation process - key stages

Establishing a fully-funded, economically prioritised Investment Programme involves the following broad stages:



Prioritisation in action - example from GM

Declining
GVA return
per £ of
cost to
GMTF

All options
below
orange line
meet
program
minima

Prioritised list of schemes	Capital cost (£m)	Cumulative capital cost (£m)	Local funding deal		
<i>Annual additional ITA levy increase for 4 years</i>			2%	3%	4%
<i>10 year topslice of LTP funding allocated to fund</i>			40%	50%	60%
Accelerated DfT Package	244	244	✓	✓	✓
SEMMMS scenario	210	454	✓	✓	✓
Mottram bypass	100	554	✓	✓	✓
LSM busway	80	634	✓	✓	✓
Rochdale Centre Metrolink	33	667	✓	✓	✓
Ashton Bypass phase 2	18	683	✓	✓	✓
Wigan IRR	30	713	✓	✓	✓
Airport and 2CC Metrolink	518	1,232		✓	✓
Contribution to stations	50	1,282			✓
Altrincham Interchange	19	1,301			✓
Bolton Interchange	48	1,348			✓
Oldham Centre Metrolink	84	1,430			
Trafford Park Metrolink	317	1,747			
Stockport Interchange	38	1,783			
Stockport access scheme	71	1,854			
Total	1,854	1,008	1,226	1,375	

Increasing
local
contributions
buy
a bigger
programme

Actual slide from the pack that the 10 GM Leaders used to commit the second tranche of local funding in 2009. The eventual decision took the programme to the Oldham Centre Metrolink. Deals since have delivered the remaining projects and more.



City Deal for Belfast Region

The Current
UK City Deal
Landscape



Questions



4. Interactive Session





City Deal for Belfast Region

**Interactive
Session**

Groups facilitated by KPMG City Deal Advisory Engagement Team

1 Hour
45 minutes



➤ **What is your Vision for the Belfast City Region?**



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- What problems should a City Deal for the Belfast Region seek to address?



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- In your view, what should be the objectives of a City Deal for the Belfast Region?



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- What should be the geographic boundary of a City Deal for the Belfast Region?



5. Next Steps & Wrap Up





City Deal for Belfast Region

Key Milestones

