KPMG
cutting through complexity

An Economic Growth Partnership Model for Queensland

Scoping Study Report

FINAL REPORT

4th February 2014

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Contents

Executive Summary

The Property Council of Australia (PCA) in partnership with the Department of State Development, Infrastructure and Planning (DSDIP) and the Council of Mayors (SEQ) (CoMSEQ), have embarked on an investigation of alternative models for funding infrastructure across the state. Specifically, this investigation has sought to understand whether Queensland could draw on learnings from the City Deals reached between Central Government and Local Councils in the UK to develop a better local approach to infrastructure funding.

The key driver for this work is the desire of all stakeholders to explore innovative and sustainable infrastructure funding and financing models that will deliver economic growth and improved development outcomes for Queenslanders.

City Deals in the United Kingdom

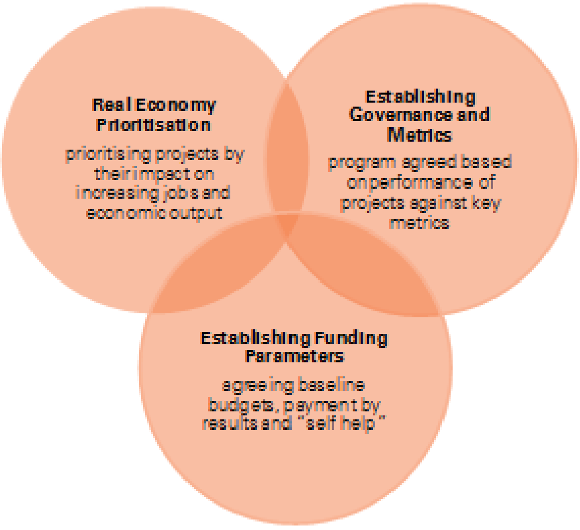
The UK Cities Model refers to a package of reforms that culminated in an agreement (or "Deal") between the two tiers of government, Central and Local, in the United Kingdom. The objective of the reforms is to maximise a city's economic potential and thus its contribution to national growth by driving up productivity and employment. The model was developed and refined in Greater Manchester (GM), and is now being replicated to varying degrees across numerous UK cities.

The key driving factors for the change to the new model in the UK were:

- Realisation that the funding 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 central government budget. This turned investment decisions into a huge source of tension and conflict between central and local government, with the Treasury 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 (BCRs) 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 traditional (economy fixed i.e. jobs, population and incomes are fixed) BCR approaches to project appraisal.
- Increasing interest in alternative funding mechanisms (value capture etc) and (with Crossrail acting as a case study) questions about how to maximise incentives to develop and deploy these.

Many of the underlying themes beneath these driving factors are currently present in Queensland as the policy and investment settings of governments are framed against the backdrop of strong fiscal discipline and value for money.

The core principles of the Greater Manchester City Deal can be summarised by three pillars as highlighted in the diagram below.



In essence GM's proposition was that through combining existing and new local funding streams ('self help'), and the prioritisation of infrastructure investment around economic growth, GM could grow the net national tax take, the vast bulk of which accrued to central government. This led to a proposal for a "payment by results" mechanism which would allow GM to earn back its local self help as and when it demonstrated additional net growth at the GM level. The idea was that this would allow GM to turn its transport fund into a genuinely rolling proposition, under which the scale of annual investment would be a function of its initial self help; and the additional growth it delivered.

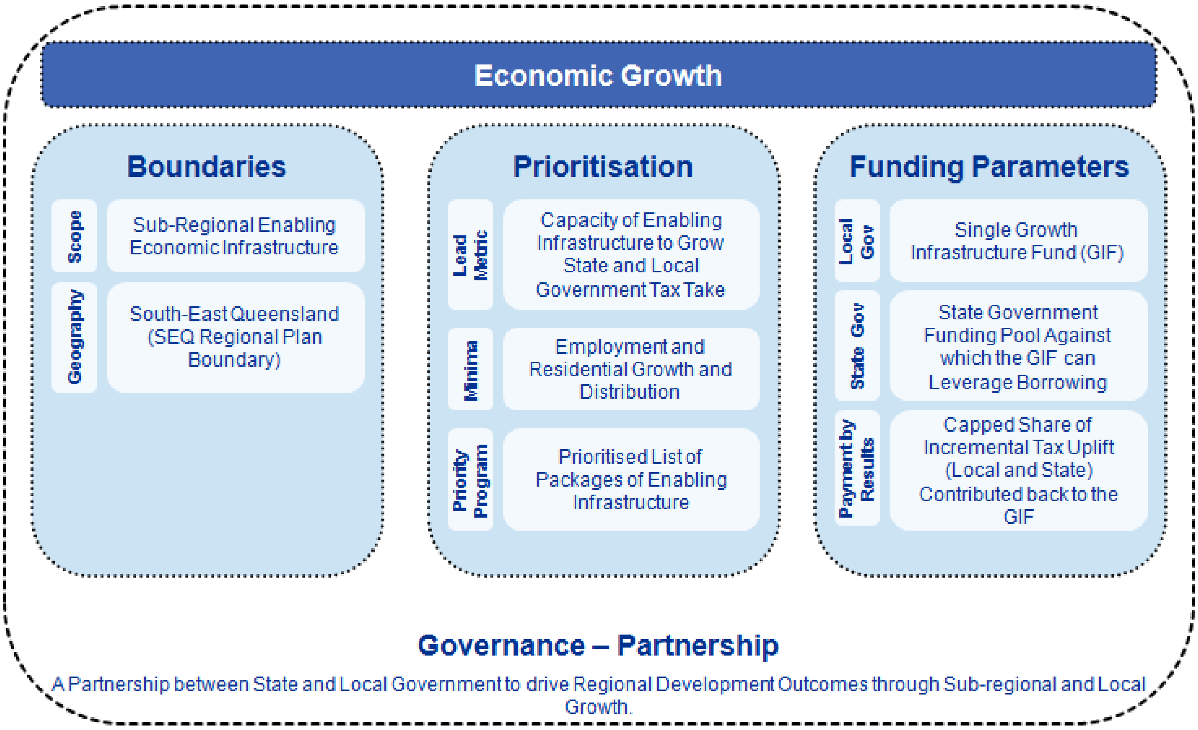
These proposals coincided with Government's desire to engineer a new relationship with UK cities focused on a series of bilateral deals designed to generate growth, and the GM "earn back" deal became the centrepiece of the first round of city deals.

A Proposed New Model for Queensland

The key attributes of the UK City Deal model were considered against the backdrop of the Queensland infrastructure, planning and development environment to identify the elements of the UK City Deal Model that could be drawn upon to develop a tailored approach to local infrastructure funding for Queensland. The resulting approach has been termed an ***Economic Growth Partnership*** Model (EGPM) for infrastructure funding.

The Queensland Economic Growth Partnership Model has been developed on the basis of three pillars. As outlined in the diagram below, the model has been built upon a foundation of a partnership approach to governance between state and local government and the participation of the development sector. This foundation enables negotiation around infrastructure investment and prioritisation at a broader scope and geography than would have traditionally been considered. It enables the partners within geographical settings to approach infrastructure prioritisation around consistent metrics (including a proposed lead metric of Gross Value Added) and agree to a new approach to funding that will ultimately grow revenues and economic activity across the State. This is represented in the outcome of 'economic growth' that straddles the three pillars.

Three Pillars of an Economic Growth Partnership Model



Source: KPMG

The core elements of each pillar are briefly summarised in the table below.

Boundaries	
Scope	The scope of the proposed Queensland partnership focuses on the prioritisation of ***sub-regional enabling economic infrastructure***. This infrastructure specifically refers to the sub-regional and local trunk infrastructure investment required to facilitate the development of new greenfield growth fronts (i.e. sewer, water and road investments) as well as brown field and infill development/ redevelopment (i.e. pipe widening, increased pump station capacity etc.).
Geography	This scoping paper proposes that the ***South-East Queensland region*** (as defined under the SEQ Regional Plan) be the first region to test the potential of an EGPM.
Prioritisation	
Lead Metric	Growth in *Gross Value Added* is considered the most appropriate lead metric for infrastructure investment prioritisation as it focuses the program on economic outcomes.
Minima	In addition to the lead metric, the State and Local Government may wish to incorporate additional program minima into the prioritisation framework. In the UK, all cities to date have supplemented their lead metric with program minima – i.e. minimum outcomes that the program as a whole has to satisfy in addition to maximising GRP/ GSP. Potential minima that could be considered include: • overall investment ensuring access to jobs and therefore economic opportunity meets a minimum level in all councils; • overall investment ensuring access to jobs and therefore economic opportunity is maximised for the most disadvantaged; and/or • other State and Local Government priorities.
Priority Program	The program of investment needs to outline the region's prioritised approach to unlocking new development opportunities across regions. This optimisation will be achieved by ranking each project based upon its contribution to GRP. The modelling required to progress this process of prioritisation will need to be bespoke to the scope of infrastructure being considered and the spatial/ economic interface in the regions that it is applied (e.g. SEQ)

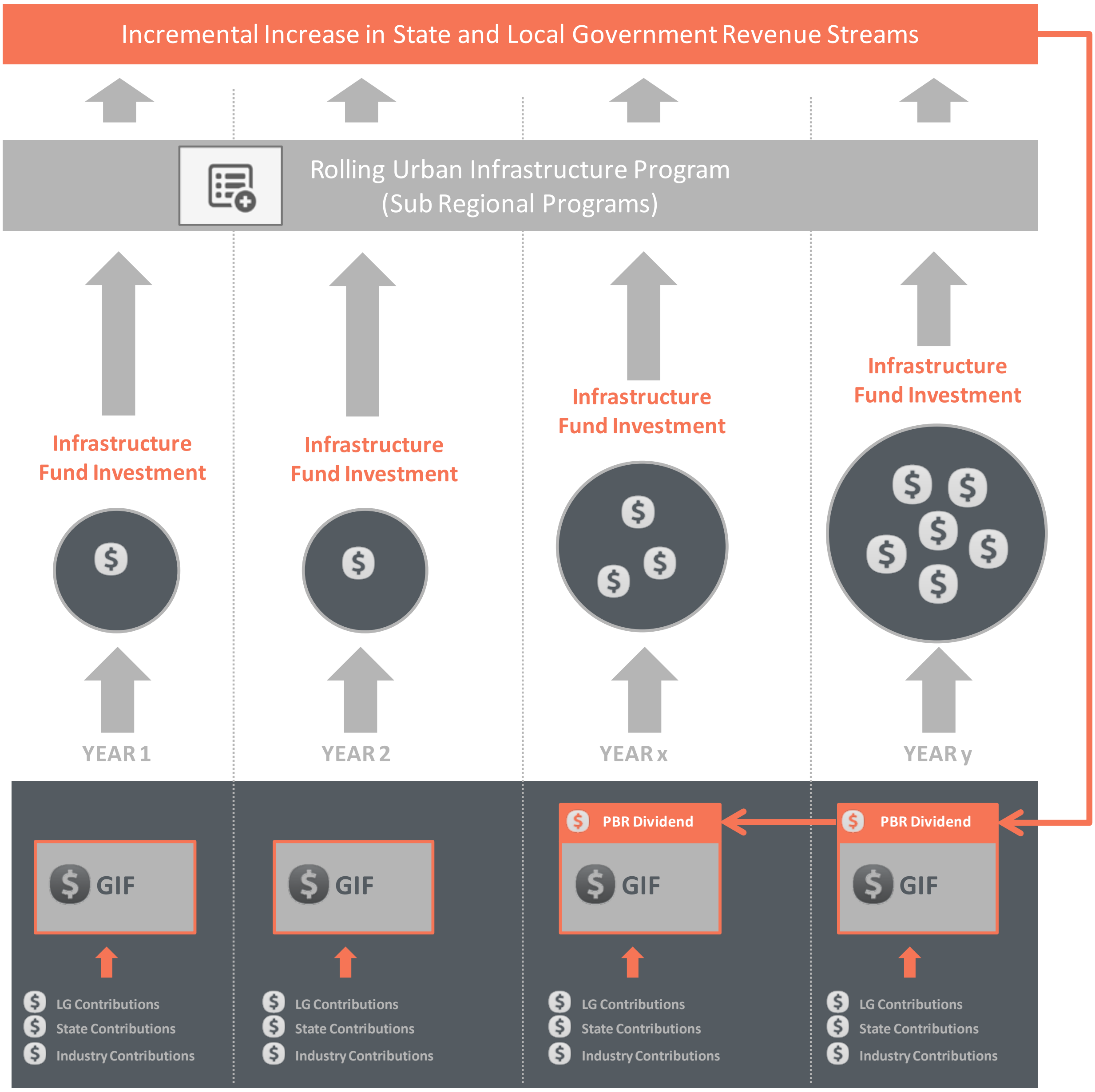
Funding Parameters	
Local Government	Under the terms of an EGPM all local governments across a region would collectively contribute toward a funding pool for infrastructure investment (GIF). The model does not specify the manner in which an individual local government may fund this contribution. These are policy matters for individual Councils.
State Government	Under the EGPM, the partnership stakeholders would seek to leverage the security associated with State backed borrowing to grow the pool of funding under the GIF. Depending upon the final scope of the infrastructure agreed for inclusion in the model, the State may also wish to directly inject funding into the GIF on a one-off, or on a recurring basis.
Payment by Results	The payment by results mechanism acts as an incentive for local government investment in infrastructure through the State Government offering to reinvest a share of the tax receipts generated by new economic activity back into a rolling investment fund. Two potential benchmarks have been nominated for this mechanism, including a land value benchmark and a GRP benchmark. The final decision on the benchmark will need to be agreed between all stakeholders.
Governance	
Governance	Governance arrangements for the EGPM are core to ensuring that the partnership is both equitable in the distribution of development outcomes and economic growth as well as readily implementable. A representative approach will need to be agreed between the state and local government.

While not a formal member of the EGPM, the sector will have an integral role to play in continuing to provide contributions associated with new development under the State Planning Regulatory Provision (Adopted Charges) 2012 and any subsequent reforms. This reflects the key role the development sector has a key contributor to the provision of sub-regional and local enabling economic infrastructure through the payment of infrastructure contributions or the construction and transfer of infrastructure assets.

The diagram below has been prepared to outline an indicative representation of the flow of the EGPM, once core elements of each pillar have been agreed. It surmises that in each year, local government, the state government and the private sector will contribute both financial and non-financial resources towards a pooled growth fund (GIF); which will in turn be utilised to progress an agreed program of sub-regional enabling infrastructure. This infrastructure investment will generate incremental increases in both local and state revenue streams, which will be partially reinvested back into the GIF through a payment by results (PBR) scheme, should the infrastructure investment deliver agreed economic (GVA) growth benchmarks.

Should the infrastructure investment yield real economic growth dividends as expected, the reinvested funding from growing revenue streams will grow the size of the GIF, and decrease traditional year-to-year funding contributions from stakeholders out of consolidated revenue. Accordingly, the model seeks to maximise economic growth outcomes and address current ongoing challenges around sub-regional infrastructure funding constraints.

Indicative Flow Diagram of the EGPM



Note: Contributions could come in a variety of financial and non-financial means

Source: Council of Mayors (SEQ) & KPMG

Refining the EGPM to support implementation

This scoping study has presented a preliminary assessment of the potential parameters for an EGPM in Queensland that draws on the lessons of the UK City Deals Model. While these parameters provide an initial basis for socialisation of the concept, further analysis will be required to test the rigour of the approach; the extent of the payment by results incentive; and a potential range for key funding parameters that would need to be refined through negotiation between stakeholders in the partnership. This analysis is beyond the scope of the current engagement. Nevertheless, a broad outline of next steps for the model has been summarised in the diagram below.

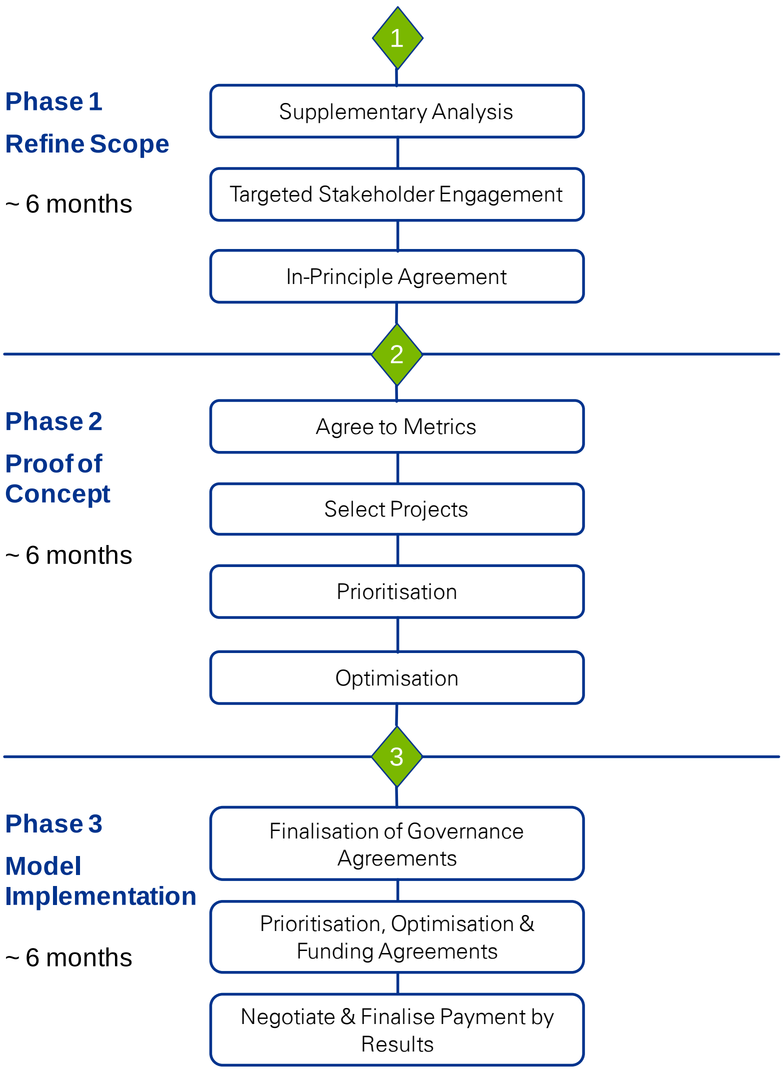
The proposed approach to implementation has been divided into three phases, preceded by a gateway 'go/ no-go' decision point for stakeholders (green diamonds). It is recommended that the SEQ region provide the foundation for refining the EGPM to provide a useful pilot given the:

- SEQ region has the greatest density of both residential and economic development activity and has the largest regional economy in the State;
- maturity of cooperative arrangements and formal governance structures in place (e.g. CoMSEQ);
- historical infrastructure planning and programming foundations that supported the SEQ regional planning and capital works delivery (e.g. SEQIPP, QIP) and
- opportunities to link the model with current statutory regional planning processes, including the potential role the EGPM could play in supporting the infrastructure outcomes required to deliver SEQ economic development and regional planning outcomes (e.g. current SEQ Regional Plan Review)

The key next phases and indicative timeframes are provided below to guide considerations as to what actions are required to refine the EGPM in the SEQ context. They reflect an assumption of clear commitment and alignment between stakeholder objectives and the allocation of fit for purpose resourcing model to drive model refinement.

It is understood that these matters will be given further consideration by State, Local Government and industry in considering the appetite for the reform opportunities presented by the EGPM.

High Level Implementation Approach for an SEQ Pilot EGPM



1. Introduction

The Draft Queensland Plan outlines a vision for the state that revolves around growth, productivity and service delivery.[1] Specifically, the vision outlines a future whereby Queensland is:

"A vibrant and prosperous state with a population that has grown to 8 million."

The vision also identifies the need for:

"The right infrastructure in the right place at the right time."

In order to realise this vision, Queensland will need to seek new means to facilitate urban and regional growth. This growth will require infrastructure investment that unlocks the development opportunities that will enable the private sector to drive development. In an environment of budgetary constraint, however, policymakers and private sector representatives alike have recognised the challenge of meeting a growing demand for infrastructure investment.

Accordingly, the Property Council of Australia (PCA) in partnership with the Department of State Development, Infrastructure and Planning (DSDIP) and the Council of Mayors (SEQ) (CoMSEQ) ("the project steering group"), have embarked on an investigation of alternative models for funding infrastructure across the state.[2] Specifically, the steering group have sought to understand whether Queensland could draw on learnings from the City Deals reached between Central Government and Local Councils in the UK to develop a better local approach to infrastructure funding.

This investigation has stemmed from the recognition that new ways of infrastructure funding and prioritisation are required to overcome the infrastructure deficit in the State and to ensure that future investment best delivers on economic growth objectives. This recognition has come from the realisation that the infrastructure funding models historically used in Queensland will not meet the State's future needs for infrastructure provision.

KPMG have been engaged to facilitate the review of the relevance of elements of the UK City Deal Model of infrastructure prioritisation and funding; and draft the high level parameters for a bespoke model of infrastructure funding that draws on these elements.

1.1. Project Scope

The primary purpose of this study is to investigate the relevance of elements of the UK infrastructure funding model to Queensland and whether these drivers and concepts could be adapted for local application to deliver an increased level of infrastructure development. Importantly, the project steering committee required that the focus of the project is to be "local infrastructure" that is considered critical to enabling development. This includes core trunk infrastructure networks (eg. Water and wastewater, sewerage, local roads, etc) that are fundamental to delivering residential and employment lands development at a local and subregional level.

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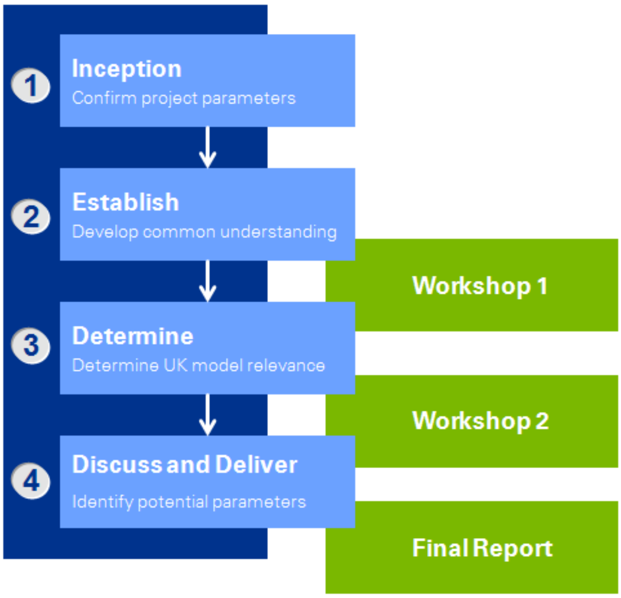
[1] Draft Queensland Plan (2013)

[2] While alternative models are acknowledged and briefly described in Appendix 1 of this report, the focus of the study has been on the relevance of core elements of the UK Model. This model does not preclude the inclusion of elements of other international approaches, however the scope of the study has focussed predominantly on lessons that can be learned from the UK experience. This report has been drafted accordingly.

In this regard, the focus of infrastructure funding model considerations was limited to State and Local government financial considerations and excludes Federal/State/Local government taxation and financial relations.

KPMG's approach to address this scope is summarised in the figure below.

Figure 1: Project Methodology



Source: KPMG

This draft report has been prepared to provide a succinct preliminary assessment of the scope of a Queensland model of infrastructure funding that draws on the lessons of the UK City Deal Model. It is not intended that this study will provide a definitive solution for infrastructure funding. Instead, it has been designed to provide an overview of a specific option that may form the basis for a new model of funding, subject to further analysis and consultation with key stakeholders.

1.2. Sources of Information

The current scoping study report has been developed through consultation with the project steering committee only (PCA, DSDIP and CoMSEQ). The limitations of this consultation approach reflect the preliminary nature of this engagement. Further consultation with the relevant Queensland Government agencies involved in infrastructure policy, funding, regulation and delivery will be a priority for consideration following consideration of the findings from this preliminary scoping engagement by the project steering committee.

1.3. Structure of this Report

The remainder of this report is structured as follows:

- ***Section 2 – UK Cities Model:*** summarises key elements of the UK Cities Deal Model, the rationale for its inception and key elements of its early implementation in Greater Manchester (GM).
- ***Section 3 – Infrastructure Funding in Queensland:*** outlines the current model for funding infrastructure in Queensland and Australia and identifies the key stakeholders with a leadership role in infrastructure funding.
- ***Section 4 – What Elements of the UK Approach are Relevant for Queensland?:*** Outlines the relevance of core elements of the UK City Deal Model to a Queensland context and considers the key inferences for the development of a bespoke Queensland approach.
- ***Section 5 – Parameters of an Economic Growth Partnership for Queensland:*** outlines a set of draft parameters for a new infrastructure funding model in Queensland. A range of variables are outlined for the consideration of key stakeholders seeking to progress the model.
- ***Section 6 – Next Steps:*** A series of next steps are outlined for the progression of the Economic Growth Partnership Model.

2. Understanding the UK Cities Model

For the purposes of this report, the UK Cities Model refers to a package of reforms that culminate in an agreement (or "Deal") between the two tiers of government, Central and Local, in the United Kingdom which has delivered a new approach to infrastructure funding, project prioritisation, and decision making.

The objective of the reforms is to maximise a city's economic potential and thus its contribution to national growth by driving up productivity and employment. The model was developed and refined in Greater Manchester (GM), and is now being replicated to varying degrees across UK cities.

The GM deal was agreed in principle in 2012 and finalised in June 2013. Deals comparable to it are now well advanced in Leeds, Sheffield, Greater Cambridge, and Glasgow, with other metropolitan areas, including Greater Birmingham at earlier stages in developing similar models.

As the next wave of deals is finalised, other cities are expected to follow suit. Some, but not all elements of the GM approach now feature in a wider local growth initiative being pursued by the UK government. This first extended the city deal idea to second tier cities, and is now intended to cover the whole of England, with what started as "city deals" becoming more universal "growth deals".

To facilitate this broader approach, England has been divided into some 39 Local Enterprise Partnerships (LEPs). These LEPs provide a platform for bringing local authorities and businesses together to promote growth.

This report focuses on the most complete version of the model, as pioneered in Greater Manchester (GM), and which the likes of Leeds, Sheffield, Greater Cambridge and Glasgow are currently negotiating with central government in an effort to emulate, rather than the less complete (and less demanding) version being rolled out to LEPS through the growth deal process.

The differences between the complete GM model and the wider growth deal approach serves to highlight the multifaceted nature of the reform package.

Although the elements of the full package are mutually reinforcing and therefore likely to deliver more in combination, the UK experience suggests individual elements can stand on their own.

The UK experience also suggests that even if the ultimate ambition is something akin to the full package it is not essential to get there in one step. This was not the path GM took to its deal and there are features of some of the second batch of deals which suggest the reforms will continue to develop.

2.1. Background to the UK Model

As part of each spending round, a total budget is agreed between the Department for Transport (DfT) and HM Treasury (as Central Government) for all investment in English city region specific and local infrastructure – i.e. one budget covering this kind of investment across the whole of England. Other budgets cover longer distance and inter-city investment. (The devolved administrations in Scotland and Wales each receive a single capital budget for all purposes, which they then allocate between purposes).

Prior to the development of the model, these city region budgets were allocated on a project by project basis following project-by-project bids to the DfT by local authorities.

Budgets were not allocated geographically and there was little transparency at the city level about what the total budget was or what a city might expect to get. There was no certainty of funding over either the medium or long term.

Initial reforms included: a separate budget for London – to be allocated by the elected Mayor - and a population based formula allocation of a small proportion of the remaining local budget to all local authorities for small schemes (less than £5m).

Outside London, however, project-by-project bids for major schemes (anything over £5m) persisted in one form or another until the first city-based reforms were agreed with GM in 2009.

All bids were traditional Benefit Cost Ratio (BCR) based, with local authorities being responsible for making the case. Appraisals would be scrutinised by the DfT, and Ministers would periodically clear schemes to move up an "approval ladder" – program entry through to final approval, with the last stage only being possible when budget headroom became available.

2.2. The Rationale for Reform

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 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 BCRs 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 traditional (economy 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 acting as a case study) questions about how to maximise incentives to develop and deploy these.

Of the above reform drivers the first to bite was the pressure on DfT budgets, with Treasury persuading DfT to establish (and publish) expenditure norms/guideline budgets at a regional level. This meant, for example, a guideline budget for the whole of the North West of England, an area which includes both GM and Merseyside, and a lot more besides.

While this approach helped bring home budget realities and reduced 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 GM to think radically about what a fuller reform package might look like, in particular one that would deliver the economic outcomes it was seeking, which it recognised would require a fully funded and fit for purpose investment program.

Crossrail Appraisal

The re-appraisal of the Crossrail project in the early 2000s proved to be critical in the development of the thinking behind the City Deals Model reforms in the UK.

It was the first serious attempt to put numbers on the wider economic impacts of a project of this scale and although the impact on the BCR ratio was (in UK terms) far from transformational – an increase from the order of 2X to 5X – when the implications of 3X costs through productivity were thought through, the impact on UK Treasury thinking proved significant.

In the UK the tax to GDP ratio is higher than 1/3, and given that productivity improvements are what ultimately drive GDP growth, this productivity result of 3X costs means that present value of additional tax receipts exceeds the present value of costs to the taxpayer. In other words, if the figures were right, Crossrail would not impose a net long term cost on taxpayers. In other words, the BCR had not jumped from 2X to 5X, but from 2X to infinity.

This changed Treasury attitudes to the project itself and led to the Eddington Review and the establishment of the Wider Economic Benefits (WEBs) approach, which was the first step towards the real economy appraisals that are a central feature of the new UK city model.

Full details of the CBA assessment for the project, as well as the WEBs analysis can be accessed at http://www.crossrail.co.uk/benefits/wider-economic-benefits/. Beyond the detail of the analysis, the key implication of the project was the recognition by treasury of the real financial benefit that transport infrastructure investment could yield.

The Crossrail result however also renewed Treasury's interest in value capture. The point here being that if the total financial gains from the Crossrail project are three times costs; there are post tax financial gains of two times costs which will be shared between London businesses, land owners, investors and employees.

Reflecting this, the eventual funding deal for Crossrail involved:

- only 1/3 of total costs being met through additions to London's devolved budgets; and
- agreement to two significant new value capture mechanisms targeted at benefiting businesses in London – one (a supplementary rate on business property values) was targeted at existing businesses, a second (a community infrastructure levy). was targeted at new development.

2.3. Greater Manchester's First Steps

The second, more significant reforms were bottom up, with GM taking the lead.

Although GM did what it could to get the rest of the North West to agree to prioritise its projects within the overall North West guideline total, it recognised that this "horse trading" would only get it so far, and that it would need to look to own source revenues (i.e. self help) to make a real difference.

It also recognised that it would need to be more disciplined in thinking about the value of investment and that it could make its own decisions about how to allocate self help funding. This resulted in GM building on the logic of the Crossrail case and recognising that the key driver of net value of transport investment was its impact on the real economy, since this drove both benefits and net costs.

GM also recognised that if it was to make the case to local stakeholders for what would need to be unprecedented levels of self help it was going to have to articulate the case rather better than through the language of traditional cost-benefit analysis, and in particular look beyond "wooden dollar" time savings.

After a false start based on a package that would have been part funded through congestion charging, the 10 GM authorities unanimously agreed to the following approach to delivering a 10-year program of economically focused investment:

- a carve out of the North West regional budget dedicated to GM. This was set at the level of the GM schemes that had emerged from the negotiations amongst the North West stakeholders. This meant the GM initiative imposed no net costs on either other parts of the region or DfT. This approach had the side benefit of allowing GM to revisit its projects in the list without the risk of losing out on funding;
- a move to real economy appraisal for all potential GM schemes, with a lead metric of net impact on GM GVA (Gross Value Add – in essence employment and productivity) at the GM level per £ of net cost to GM. This resulted in a prioritised list of projects designed to maximise the total impact on GM GVA for a given budget.
- given that a substantial amount of financial self help was expected to be required to get the program to an acceptable scale, and that this burden would be shared across GM, the lead GVA metric was supplemented with a number of "program minima". These were minimum outcomes that the program as a whole had to deliver. The GM minima were a net reduction in transport CO_2 emissions and a better than average improvement in employment opportunities for the most disadvantaged communities, defined in terms of an index of multiple socio-economic deprivation (the index is similar to the SEIFA index published by ABS in Australia). Critically, the 10 GM leaders signed up to these metrics before knowing the project ranking that would result; and
- agreement to very substantial sums of local funding to the DfT budget carved out from the North West with the ultimate burden being divided between the 10 GM authorities pro-rata to population. The final decisions involved the 10 leaders of GM agreeing to the scale of the local contribution per head of population which in turn determined how far down the prioritised list of projects the program would go.

In order to deliver the program the 10 leaders agreed to establish:

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

Two tranches of self help funding have been committed to the GMTF, and its existence has enabled GM to gear in contributions from other DfT budgets towards GM schemes that also deliver against inter-city wider objectives.

The functional economy of GM extends across 10 local authority districts (namely Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan). The area has a combined population of 2.7 million and annual economic output (GVA) of £48 billion in 2011, representing 4.3% of the English and 3.6% of the UK economy.

Current estimates are that GM initiative has increased the scale of its 10-year investment program by at least a factor of seven.

In parallel to establishing the GMTF, and building on the credentials it gave local leadership, GM started negotiating with central Government to widen the reform.

One of the initiatives explored by the new Government elected in 2010 was the potential of tax increment finance (TIF) to help generate additional growth. This initiative focused on a limited number of small sites and restricted to business property taxes - some 4% of total tax. The narrow nature of the initiative contributed to Treasury concerns about the proposal, with its expectation that very little of any new growth attracted to a small site would prove to be additional at the national level. This resulted in Treasury treating the initiative as an alternative form of public expenditure with every GB£ of TIF financed investment being netted off other forms of public expenditure.

GM proposed to the UK Government that its Transport Fund approach, in particular the self help and measure of success based on net impacts at the whole of a city region (£50bn of economic output; 2.7 million people in the case of GM), would offer a much better form of TIF.

GM's initial local investment in its transport fund is £1.2 billion of capital, the levy-supported cost of which (up to £33.6 million p.a.) has been split pro rata to population. The annual cost of servicing £1.2 billion of locally-supported borrowing is around £80 million p.a. for 30 years. This represents the annual 'self help' contribution by GM.

The local GM program of investment targeting jobs and productivity is at least £2 billion larger than would have been deliverable in the absence of its Transport Fund/City Deal.

In essence GM's proposition was that its self help funding, every amount of which was focused on delivering net growth at the level of the whole of GM would, if successful, deliver net national growth, which in turn would deliver net national increases in total tax, the vast bulk of which accrued to central government. This led to a proposal for a "payment by results" mechanism which would allow GM to earn back its local self help as and when it demonstrated additional net growth at the GM level. The idea was that this would allow GM to turn its transport fund into a genuinely rolling proposition, under which the scale of annual investment would be a function of: (a) its initial self help; and (b) the additional growth it delivered.

These proposals coincided with Government's desire to engineer a new relationship with UK cities focused on a series of bilateral deals designed to generate growth, and the GM "earn back" deal became the centrepiece of the first round of city deals agreed in spring 2012.

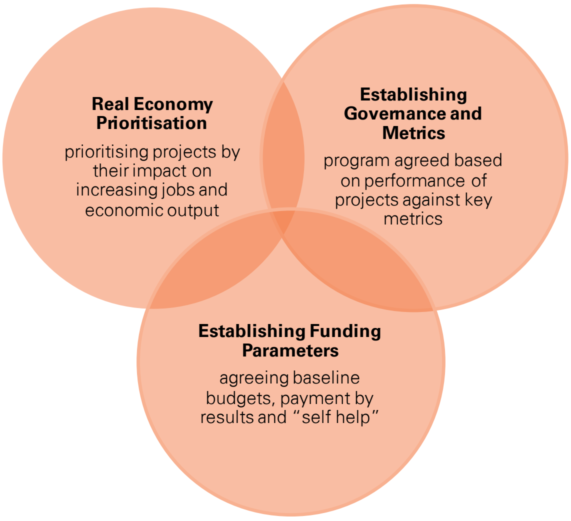
In the case of GM, this earn back has been capped at 40% of 'self-help', enabling GM to potential receive an additional £30 million per annum toward their rolling infrastructure fund. This funding would otherwise not have been allocated to the region and is genuinely additional.

2.4. UK Cities Model

The core principles of the kind of UK Cities Deal that GM agreed and which the most ambitious other cities are seeking to emulate can be summarised by three key pillars:

- "Real Economy" Prioritisation;
- Funding Parameters; and
- Establishing Governance and Metrics.

Figure 2: Three Pillars of the UK Cities Model



Source: KPMG

Key elements of these pillars, as exhibited under the GM deal are summarised below.

Real Economy Prioritisation

Metrics definition

Metrics are agreed up front that provide for a real economy focus (e.g. net impact on jobs and productivity at the level of the whole city region), combined with supporting metrics that ensure sufficient balance in terms of benefits across an area to sustain local agreement. Selecting metrics that focus on economic output rather than incomplete and potentially distorting proxies (such as time savings) is an essential feature of the model. The UK experience is that generating consensus around initiatives reliant on significant levels of self help requires more than a single headline economic metric; it also means delivering balance, particularly in terms of the distribution of the benefits that focusing on the real economy can bring, e.g. the distribution of improved employment and earnings opportunities both geographically across a city region and between communities.

In practice this kind of balance can only be delivered at the program level. This has resulted in the establishment of what are referred to as "program minima"– minimum outcomes that the program as a whole has to deliver. Under the UK model the lead economic metric (typically GVA) is being maximised subject to the minima also being delivered. The UK experience is also that it makes sense to focus on a 10 year view, which provides scope to build in balance whilst avoiding the risk of projects being too far away to generate buy-in.

A measure of GVA is typically used as a strategic measure of a region's economic success. Importantly, the GVA measure relates to the net impact at the city region level, which means:

- the GVA created by a scheme has to be genuinely additional to that which would otherwise be generated by the regional economy; and
- that as a larger geography, net impacts are closer in size to what they would be at the net national level.

GVA is a key driver of tax receipts and as a result, important to the long term return on government expenditure.

In Greater Manchester, GVA growth has been projected to be roughly equivalent to capital investment, such that on average, for every £1 of capital invested, the region's GVA grows by £1 (recurrent) once the investments mature. This reflects the high return on investment associated with transport infrastructure investment (the focus of the GM City Deal).

Program prioritisation

Once metrics are agreed, the list of potential projects is prioritised on the basis of these metrics by an independent party acceptable to all stakeholders. The outcome of this process is a program of projects, ranked from highest to lowest priority against the lead metric. A number of potential funding scenarios are then applied to the prioritised list and the emerging programs are checked to see they comply with the program minima. Where the program fails, its contents are adjusted until it complies, with projects being swapped in and out with a view to minimising the impact on the headline metric.

In practice this means ensuring that the potential list includes both projects that are cost effective against the lead metric and against the program minima. In the UK model significant effort is put into getting the program metrics right at the outset, before the prioritisation is undertaken. The aim is to avoid attempts in the end game to redefine the criteria in order to change scheme rankings. A clear real economy lead metric (jobs and productivity) helps here, since it is very difficult for stakeholders to argue for an approach that reduces employment and growth outcomes. Arguments about fair shares are harder to counter which is why in the UK model substantial effort goes into determining the program minima, with this part of the exercise being a critical part of binding local stakeholders together.

Clearly articulating each specific deal objectives and minima allows for an effective and fair assessment of achievement to be drawn. The lead objectives and program minima are very specific for each deal that is developed. This is to account for local context, local politics and region specific ideals. Examples of lead objectives and program minima for multiple UK City Deals are detailed in the table below.

Table 1: UK Case Study Deal Objectives and Minima

Metrics utilised by UK Deals			
Feature	**Greater Manchester**	**West Yorkshire**	**South Yorkshire**
Context	Population: 2.7m GVA: £46bn	Population: 2.5m GVA: £43bn	Population:1.7m GVA: £20bn
Lead Objective	Maximise local jobs and productivity (GVA)	Maximise local jobs and productivity (GVA)	Maximise local jobs and productivity (GVA)
Program 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	Currently in discussion, but likely to be similar to the West Yorkshire with additional reflection of the geographic spread of job accessibility improvements
Geography	Net impacts at the GM level	Net impacts at the LCR plus York level	Net impacts at the SCR level
Scope	Initially non-rail transport. Stage 2 (probably) heavy rail and non-transport	All transport, plus some regeneration schemes at the margin	All forms of infrastructure

Source: KPMG

Establishing Funding Parameters

Baseline Budget

A commitment by central government on what a city/region would get in the absence of self help, value capture etc. Together with the real economy modelling this helps cities understand what the self help and value capture actually delivers in terms of jobs and productivity in the city;

Self-help

Self help is any additional locally sourced funding over and above standard budget allocation. It includes revenues, tolls, value capture levies, developer contributions and any dedicated local taxes that are not committed to projects in the usual course of events. The key point is that it is about the lower tier of government taking some difficult decisions and adding to total investment as a result; and

Payment by Results

A city is rewarded for its self help as (and when) it delivers additional growth. This means the local self help contribution is returned as further investment and economic growth, so long as the initial investment delivers what is promised. This reinforces the incentives created by the initial move to baseline budgets and real economy prioritisation, making it clear to local decision makers and stakeholders why they should follow through on the logic of the approach, whilst at the same time ensuring that a city receives its fair share of the fiscal benefits its extra efforts create. In the absence of payment by results, the suspicion (indeed likelihood) is that self help may only promote additional investment in other places by effectively making those projects less expensive to central government.

Decision Making and Governance:

Governance

Effective governance arrangements are critical to ensuring that the terms of the other two pillars can be negotiated and committed to. This is about both the initial decision-making – e.g. around the all important decision criteria as described above - but also in downstream delivery.

GM established the GMCA, accountable to the 10 leaders of the GM authorities, to deliver and/or make changes to their program. This operates under Quality Majority Voting rules (7 of the 10 leaders have to vote in favour) and has the right to levy the 10 authorities (pro rata to population) to deliver its agreed programs. The GMCA is accountable to a cabinet of the 10 elected leaders, which meets formally at least once a month, with the venue rotating between authorities.

Geographic Boundaries

The geographic boundaries of deals generally align with either the metropolitan area or a broader, pre-defined regional geography. Alignment of Deal geographies to the boundaries of existing governance entities has simplified any concerns about local authorities opting in or opting out of the Deal. The GM geography aligned with the boundaries of ten local authorities. These included the Metropolitan Boroughs of Trafford, Bury, Stockport, Rochdale, Oldham, Bolton, Tameside and Wigan; and the cities of Manchester and Salford.

2.5. Greater Manchester Experience

10 key steps that secured the Greater Manchester model

The GM deal was the first of its kind in the UK. The GM approach is broken down into ten key steps:

(i) establishing the baseline budget – this provided GM with clarity about "do nothing" funding;

(ii) local agreement (10 leaders of the 10 GM authorities) on the rules of the game and in particular the decision making metrics – lead metric and program minima – which would drive the prioritisation of investment;

(iii) local agreement (10 leaders of the 10 GM authorities) on the local funding streams/value capture "in play" to complement the baseline budget. This was not about agreeing how much they would put in, but the potential funding levers they might pull. This provided the basis for funding scenario planning and (critically) helped ensure that the decision metrics would be consistent with where the funding would ultimately come from;

(iv) development and costing of the potential projects plus scope for project specific revenues and value capture, to provide robust and comparable estimates of each project's net (i.e. post any revenues) whole life costs to compare against forecast economic impacts. These estimates were all independently verified, and all 10 leaders signed off on the potential project list. As noted above, getting to the right kind of project list is not just about identifying those with potential to score highly against the lead metric, it is also about ensuring there are cost effective ways of delivering program minima;

(v) specification, development and agreement of the economic model used to prioritise projects. This was overseen by an independent party agreeable to all 10 authorities, and tests were carried out to satisfy the 10 authorities that the tools were fit for purpose;

(vi) prioritisation of the potential program on the basis of the metrics agreed at (ii). As with (iv) and (v) this was overseen independently by a party agreeable to the 10 leaders;

(vii) local decisions (the 10 leaders) on the scale of the local self help contribution to the fund, which determined how far down the prioritised list at (vi) the fund could go;

(viii) development of an earn back/payment by results mechanism which was proposed to government as a better alternative to tax increment finance ideas. The mechanism requires agreement on the benchmarks GM has to beat in order to earn back the contributions it made in step vii (i.e. anticipated growth without investment through the self help mechanisms);

(ix) commitment to reinvest the "earn back funding" into a rolling infrastructure fund; and

(x) establishment of the GMCA to ensure timely and cost-effective delivery of the initial program and to make decisions on reinvestment of "earn back" funding.

The model has provided GM with a baseline which has given it a basis for considering alternative funding mechanisms and more rigorous prioritisation. GM agreed this in 2008/9 with its regional partners and central government, and established its economically prioritised, independent contribution (self help) fund to build on this baseline. This proved to be the pilot for a wider application of city level devolved budgets, which will apply from 2015.

GM's city deal has not increased the devolved baseline budget it has secured from central government. It has, however, supplemented this with a payment by results mechanism that means GM can earn back the extra its local self help is adding to its devolved budget, and secure additional contributions towards GM projects. In order to do so, GM must achieve and/or exceed agreed benchmarks for economic performance (Gross Value Added – i.e. jobs and productivity) through the benefits generated by infrastructure investment.

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

Greater Manchester Priority Infrastructure List

Through the process detailed above, the GMCA developed a prioritised list of infrastructure projected within the combined area. This list of projects ultimately determines the funding schedule for infrastructure delivery in the GM combined area. The infrastructure projects at the top of the list have the highest GVA return per GB pound (£) of net cost. Infrastructure projects that are lower on the list will require higher 'self help' contributions made by each contributing Council authority (within the GCMA). Figure 3 depicts the three alternatives initially presented to arrive at a prioritised list of infrastructure in GM.

The eventual decision reached by the GMCA was for a broader fourth option which involves a 60% top slice of the local transport plan fund (an existing funding mechanism that provided for the redirection of central government funding to local transport projects) to the Deal, as well as a 3% compounding increase in the integrated transport area (ITA) levy for a 6 year period (rather than the 4 year period outlined initially). This resulted in £1.43bn worth of projects being funded, providing for all projects on the list up to and including the Oldham Centre Metrolink being funded through to program delivery (refer Figure 3).

Figure 3: Greater Manchester Priority Infrastructure List

Prioritised list of schemes	Capital cost (£m)	Cumulative capital cost (£m)	Local funding deal		
Annual additional ITA levy increase for 4 years			*2%*	*3%*	*4%*
10 year topslice of LTP funding allocated to fund			*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	16	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	36	1,783			
Stockport access scheme	71	1,854			
Total	**1,854**		**1,008**	**1,226**	**1,375**

Source: KPMG

Critical success factors for the Greater Manchester Deal

GM secured the deal with Central Government, and with all GMCA contributing authorities, because it offered:

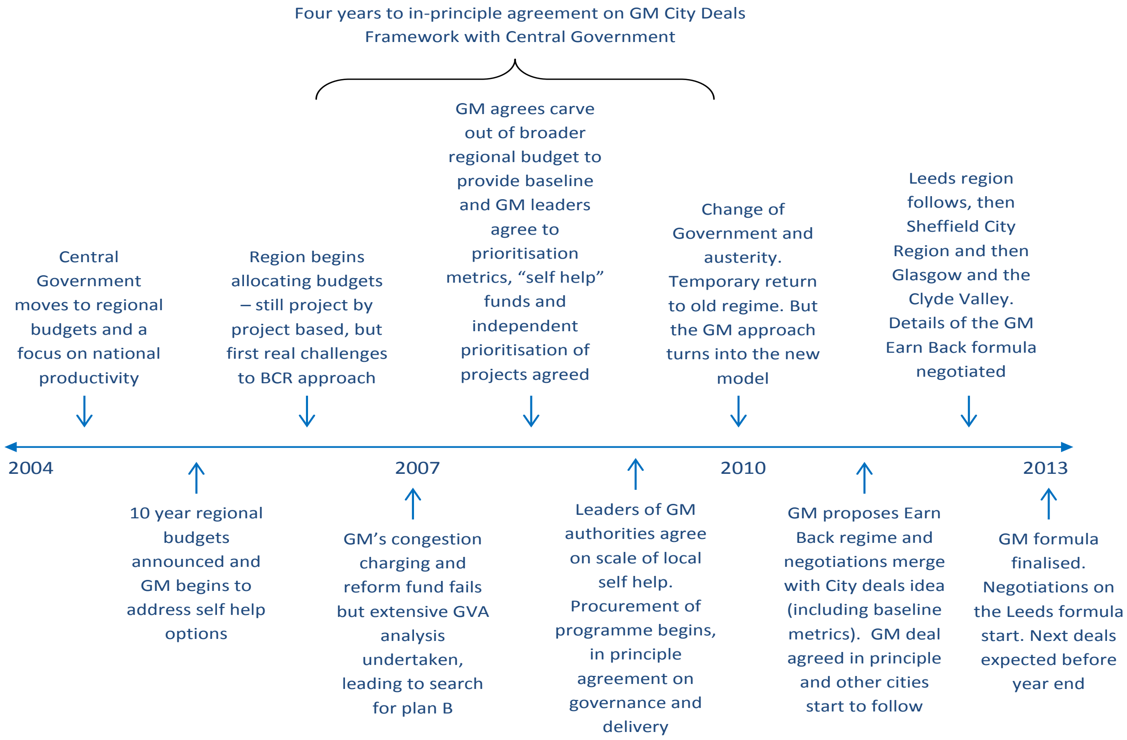
- a net measure of economic growth at a sufficiently large level of geography (whole of GM), such that most of the displacement effects of individual schemes are netted out. The larger the geography, the more of its growth will feed through to improved national economic growth, and thus Exchequer receipts
- a program which robustly prioritises net increases in jobs and productivity (GVA) 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

- providing 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

2.6. Timeline of the Greater Manchester Model

Agreeing the metrics and establishing GM's self help fund and program took less than 6 months, but this built on earlier work on the project pipeline which would have been difficult to deliver in less than 12 months. Turning an agreement in principle to the 'earn back' deal into an agreed formula took a further 12 months. Projects continued to be delivered throughout the GM implementation timeline, initially through agreed project-by-project central government funding and later through baseline funds and locally generated self help.

Figure 5: GM Implementation Timetable



Source: KPMG

2.7. Constitutional and Operating Arrangements for the Association of Greater Manchester Combined Authority

The GMCA is governed by a statutory constitution and operating agreement between each of its 10 Constituent Councils. The way in which the GMCA was formed, how funding and resources are managed, elements of accountability and the decision making powers of the GMCA are articulated in the Authority's constitution and operating agreement. These are discussed further below.

Establishment of GMCA and Associated Entities

The establishment of the GMCA streamlined the delivery of a range of transport and economic development functions that were previously delivered across the region, by bringing them under the one organisation. In order to deliver upon its mandate however, the GMCA operates in collaboration with the private sector and the Central tier of government. Entities that have a core role in the prioritisation of infrastructure investment and governance of the Manchester City Deal have been summarised below.

GMCA

Part 6 of the *Local Democracy, Economic Development and Construction Act 2009* outlines mechanisms for the establishment of combined authorities for the areas of two or more local authorities in England. Under this Act, combined authorities are bodies corporate which may be given power to exercise functions relating to transport and to economic development and regeneration in their area.

The GMCA was established pursuant to the Greater Manchester Combined Authority Order (SI 2011 no. 908) on 1st April 2011. The Order established the GMCA as the combined authority for the local governments of Trafford, Bury, Stockport, Rochdale, Oldham, Bolton, Tameside, Wigan Manchester and Salford. The core objectives of the GMCA are the improvement of:

a) the exercise of statutory functions relating to transport in the Combined Area;
b) the effectiveness and efficiency of transport in the Combined Area;
c) the exercise of statutory functions relating to economic development and regeneration in the Combined Area; and
d) economic conditions in the Combined Area.

Each of the ten Constituent Councils appointed one of its elected members to be a Member of the GMCA. In addition, each local authority appointed another of its elected members to act as a Member of the GMCA in the absence of the member appointed.

The GMCA builds on the previous Association of Greater Manchester Authorities (AGMA), which provided a voluntary collaborative voice for the ten Constituent Councils through a joint committee. Comparatively, the GMCA is a statutory body with its functions set out in legislation, covering transport, economic development and regeneration.

Transport for Greater Manchester Committee

The Transport for Greater Manchester Committee (TfGMC) is a joint committee of the GMCA and the ten local authorities in Greater Manchester. It oversees the operation of Transport for Greater Manchester (TfGM) and provides necessary approvals for its operation. It is responsible for advising the GMCA on transport policy, making recommendations on investment and ensuring the performance of the services for which TfGM is responsible.

Transport for Greater Manchester

Under its constitution, the GMCA has established Transport for Greater Manchester (TfGM) as the entity for the delivery of transport functions across the Combined Area. Accordingly, it is responsible for implementing the decisions of the TfGMC.

The two pieces of legislation that enable TfGM to deliver local transport functions include:

- the *Local Transport Act (2008)* which enables the operation of Integrated Transport Authorities (ITAs) across multiple local government areas; and
- the *Local Democracy, Economic Development and Construction Act (2009)* which enables a combined authority to deliver the functions of an ITA.

Accordingly, TfGM supersedes the previous Greater Manchester Integrated Transport Authority.

Collectively, these two pieces of legislation provide groupings of local authorities with the power to respond to regional transport needs in the light of regional circumstances and budgets.

Business Leaders Council (BLC)

The AGMA established the Business Leadership Council (BLC) in September of 2008 and it has continued to operate under the GMCA. The BLC consists of a private sector board that is representative of local business and industry (including the education sector). The board is responsible for:

- advising the GMCA on its ongoing policies and priorities;
- conducting its own reviews on the areas it believes will determine the future economic wellbeing of Greater Manchester; and
- where appropriate, making representations to the GMCA.

Accordingly, it provides a private sector litmus test for GMCA policy, and is responsible for making representations to the GMCA on behalf of industry.

Local Enterprise Partnership (LEP)

The Greater Manchester LEP was established as a partnership between the GMCA and local businesses in the Greater Manchester region in 2011. It builds on the Commonwealth initiated policy of inviting and supporting the establishment of LEPs across England with a focus on determining local economic priorities and driving local economic growth and job creation. This Commonwealth level initiative was bolstered through the provision of a Local Growth Fund in 2012 which was responsible for distributing £1,400 million across LEP regions nationally.

Similar to the BLC, the Local Enterprise Partnership (LEP) has a board made up of private sector business leaders; however the two bodies are separate and operate independently of each other.

Local Transport Body for Greater Manchester (GMLTB)

In Manchester, the GMCA and GMLEP have established the Local Transport Body for Greater Manchester (GMLTB) to take responsibility for and prioritise transport infrastructure investment for the Greater Manchester Region.

The membership of the GMLTB comprises: four members of the GMCA (all elected officials), including the leader transport member on the GMCA; the Chair of TfGMC; the Chair of the GMLEP, and one further non-local authority LEP member nominee; and the Chair of the Business Leadership Council, and the Lead Transport member of the BLC.

This membership brings together both elected officials and private sector representatives to provide a final gate for decision making on transport program prioritisation.

Accountability and Responsibilities

The GMCA has a broad range of statutory responsibilities for which it is responsible under UK legislation. In line with this legislation, the GMCA is a local authority for the purpose of Section 101 of the Local Government Act 1972 (arrangements for the discharge of functions by local authorities). Accordingly, it has similar powers to its Constituent Councils with relation to appointment of staff, borrowing of money, acquisition of land (by agreement or compulsorily), and the execution of other duties as it considers appropriate for the purpose of carrying out any of its functions.

The functions of GMCA can be broadly divided into 'transport' and 'economic development and regeneration' responsibilities. These functions, as well as the broader infrastructure prioritisation and funding determinations core to the Manchester City Deal are summarised below.

Transport

The Greater Manchester Combined Authority Order (2011) enabled the discharge of all the responsibilities of the former GMITA to the GMCA. It also enabled a series of local government transport functions to be transferred to the GMCA (i.e. traffic signs, pedestrian crossings, reporting on traffic functions etc.) **All transport functions of the GMCA have subsequently been delegated and referred to TfGM**. These include the following:

- Development of policy for the promotion and encouragement of safe, integrated, efficient and economic transport, to, from and within Greater Manchester;
- Provide advice to GMCA on preparation of the Local Transport Plan;
- Implementation of the Local Transport Plan;
- Agreement with Constituent Councils to effect the delivery of local authority transport functions;
- Maintain, analyse and provide advice with respect to Greater Manchester transport databases and models; and
- Provide cost effective traffic count, transport survey, modelling, analysis and advice services for the Constituent Councils.

Core decisions around the **prioritisation and funding of these functions are provided by TfGMC**. Accordingly, functions of TfGM include:

- Budget approval and determination of the borrowing limits of the GMCVA in relation to transport matters;
- Approving new transport schemes to be funded by the Greater Manchester Transport Funde;
- Making written requests to the Minister to authorise TfGM to purchase compulsorily any land which TfGm require for the purposes of their business;
- Policy preparation for the purposes of public passenger services;
- Monitoring and overseeing the activities and performance of TfGM;
- Monitoring performance against the Local Transport Plan and other GMCA transport priorities;
- Formulating, developing and monitoring provedures for public consultation on GMCVA's transport policies; and
- Authorising any agreements made by TfGM.

In the application of the Local Government Act 1972 (arrangements for the discharge of functions) to the GMCA, TfGMC is treated as if it were an officer of the GMCA. Where arrangements are in force for the discharge of functions of a constituent local authority by the GMCA, TfGMC is treated as if it were an officer of the GMCA.

The effective utilisation of the TfGMC to focus on transport related initiatives allows the GMCA to focus on delivering other initiatives across the combined area.

Economic Development and Regeneration

The Order provided for a series of economic development and regeneration functions of the Constituent Councils to be concurrently delivered by the GMCA and the Constituent Councils. These include powers and duties relating to housing, economic and social well-being, regional promotion, education and environmental impact assessment. Specific powers conveyed to the GMCA under the Order include:

- the power to **encourage visitors and provide conference and other facilities** (provided under section 144 of the Local Government Act 1972);
- the duty of local housing authorities to consider housing conditions in their district and the needs of the district with respect to the **provision of further housing accommodation** (provided under section 8(1) of the Housing Act 1985);
- the duty to cause **a review to be conducted of quality** for the time being, and likely future quality within the relevant period, **of air** within the authority's area and associated duties (provided under section 82 of the Environment Act 1995);
- the duty to **designate air quality management areas** (provided under section 83 of the Environment Act 1985);
- duties and powers related to the **provision of education and training** for persons over compulsory school age as provided under (sections 15ZA, 15ZB, 15ZC, 17A, 18A(1)(b), of the Education Act 1996 and the power under sections 514A and 560A of that Act);
- **promotion of well-being** (provided under section 2 of the Local Government Act 2000);
- the duty to prepare a strategy for promoting or **improving the economic, social and environmental well-being** of their area and contributing to the achievement of sustainable development in the United Kingdom (provided under section 4(1) of the Local Government Act 2000);
- the power to **modify their sustainable communities strategy** (provided under section 4(2) of the Local Government Act 2000); and
- The duty to prepare an **assessment of economic conditions** (as provided under section 69 of the Local Democracy, Economic Development and Construction 2009 Act).

Infrastructure Prioritisation and Funding

The GMLTB, of which the GMCA, TfGMC, GMLEP and BLC are members; is responsible for the prioritisation and funding pillars that are central to the Greater Manchester City Deal. The GMCA is responsible for convening the GMLTB, and accordingly the roles and responsibilities of the Board are outlined in its constitution. These responsibilities include:

- identifying a prioritised list of transport investments for Greater Manchester;
- making decisions on individual scheme approvals, investment decision-making and release of funding, including scrutiny of individual scheme business cases;
- responsibility for ensuring value for money is achieved;

- monitoring the progress of scheme delivery and spend, in concert with other appropriate GM bodies, including the GMCA and TfGMC; and
- actively managing the devolved budget and program to respond to changed circumstances in collaboration with GMCA as the Accountable Body and TfGMC.

Resourcing and Funding Requirements

According to the GMCA Constitution, the Constituent Councils shall meet the costs of the GMCA that are reasonably attributable to the exercise of the GMCA's functions.

Furthermore, the funding amount payable by each of the Constituent Councils in relation to the costs of the GMCA's functions shall be determined by apportioning the costs of the GMCA between the Constituent Councils in such proportions as they agree. The constitution indicates that in default of agreement, costs shall be allocated in proportion to the total resident population at the relevant date of the area of each Constituent Council as estimated by the Registrar General.

Decisions Making Powers and Processes

According to the GMCA Constitution, all decisions of the GMCA should be made in accordance with the following principles:

a) Proportionality (meaning the action must be proportionate to the results to be achieved);

b) Due consultation (including the taking of relevant professional advice);

c) Respect for human rights;

d) Presumption in favour of openness;

e) Clarity of aims and desired outcomes;

f) Due consideration to be given to alternative options;

Voting procedures are also determined within the GMCA Constitution. According to the Constitution, questions that are to be decided by the GMCA relating to the following matters require that at least 7 Members of the GMCA, or Substitute Member(s) acting in place of Member(s), vote in favour for any vote to be carried. These matters include:

a) the adoption, approval, amendment, modification, revision, variation, withdrawal or revocation of a plan or strategy of the following descriptions:

   i. a sustainable community strategy under section 4 of the Local Government Act 2000;

   ii. a local transport plan under section 108(3) of the Transport Act 2000;

   iii. approving the capital program of the GMCA and TfGM and approving new transport schemes to be funded by the Greater Manchester Transport Fund;

   iv. such other plans and strategies as may be determined by the GMCA from time to time;

b) the preparation of a local economic assessment under section 69 of the Local Democracy, Economic Development and Construction Act 2009 (LDEDCA);

c) the submission of a request under section 124 of the LDEDCA, a multi-area agreement under section 125 or 128 of the LDEDCA, or a revision proposal under section 132 of the LDEDCA ;

d) the approval of the budget of the GMCA;

e) the approval of borrowing limits, the treasury management strategy and the investment strategy;

f) the setting of a transport levy;

g) the acceptance of arrangements to delegate the functions or budgets of any person to the GMCA;

h) the amendment of these Rules of Procedure of the GMCA;

These voting procedures are reflective of a Combined Authority that utilises majority rule decision making. The majority rule procedures are in place to maintain fairness between Constituent Councils and seek to achieve the overall goals set for the GMCA. Standard rules of debate govern any decision making procedures. Furthermore, the GMCA Constitution states that all meetings of the GMCA, its Committees and Sub-Committees shall be open to the public (including the press) except to the extent that they are excluded during the whole or part of the procedures in accordance with either:

a) Section 100A(2) of the Local Government Act 1972[3]; or

b) By resolution passed to exclude the public on the grounds that it is likely, in view of the nature of the proceedings, that if members of the public were present there would be disclosure to them of exempt information as defined in Section 101 of the Local Government Act 1972. Any such Resolution shall identify the proceedings or the part of the proceedings to which it applies and state the description, in terms of Schedule 12A to the Local Government Act 1972 of the exempt information giving rise to the exclusion of the public.

This high level of transparency is generally reflective of a Combined Authority that is operating for the overall good of the community, the economy and regeneration interests, rather than for self-promoting interests for the GMCA.

2.8. Deals in other Cities

Leeds City, West Yorkshire & York Region

The next full deal on the UK Cities Model is likely to be with the Leeds City Region (LCR), which is establishing a fund under a similar model to Greater Manchester with the neighbouring City of York. Included in this model is West Yorkshire (WY).

Together LCR, WY and York account for some 2.5 million people, compared to GM's 2.7 million. The key differences with GM 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 with more road projects making the cut than in GM. The expectation that road schemes would perform well was reflected in LCR's decision not to set a net reduction in CO_2 emissions as one of its program minima.

[3] Section 100A(2) of the Local Government Act 1972 states:"The public shall be excluded from a meeting of a principal council during an item of business whenever it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that, if members of the public were present during that item, confidential information would be disclosed to then in breach of the obligation of confidence; and nothing in this Part shall be taken to authorise or require the disclosure of confidential information in breach of the obligation of confidence."

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 lacking the strength of a Combined Authority.

The LCR authorities have agreed their program and their local funding contribution, which is subject to an acceptable ‘earn back’ deal being signed by Government. The detailed negotiations on their ‘earn back’ formula will begin shortly with LCR looking to finalise the deal in the new year/spring.

The LCR/WY fund includes York as an associate member. As with GM, this fund is focused on Transport, and is expected to involve some £1 billion of investment, of which the large majority will be locally contributed. As with the GM Transport Fund, the WY fund is focused principally on delivering net GVA improvements at the whole of the WY plus York geography (the five districts of WY plus York, a total population of some 2.5 million people). The program to be delivered by the WY fund is currently being finalised and WY will shortly be beginning their negotiations on a GM style Earn Back Deal. Their aim is to conclude these negotiations before committing local funding.

Three cities are currently vying to come next after LCR, WY and York: Greater Cambridge; the Sheffield City Region; and Glasgow. All three are looking to reach agreement with Government in the first half of next year.

Sheffield City Region

Sheffield City Region is the most progressed with this process. The Sheffield City Region Investment Fund (SCRIF) covers the nine South Yorkshire authorities for a total population of some 1.7 million. The lead prioritisation metric is the same as GM and WY – i.e. maximum net impact on GVA at the level of the whole city region geography. The key difference with both the GM and WY funds is a broader definition of infrastructure. The SCRIF aims to address all forms of infrastructure from day one in an effort to avoid diminishing returns to investment in one kind of infrastructure, and with an eye to budget devolution which envisages city regions being provided with a single capital pot. Reflecting the smaller total population, the SCRIF is expected to involve a total initial program of some £700 million. As with GM and WY, the bulk of this will have to be provided locally. As with WY, SY aim to complete their negotiations on earn back before committing the local contribution.

Glasgow City Council

Glasgow City Council has also initiated investigations related to developing a City Deal model for that region. The Glasgow City Region includes eight local authorities, namely Glasgow, East and West Dunbartonshire, Renfrewshire, East Renfrewshire, North and South Lanarkshire and Inverclyde. It has a population of 1.8 million, which represents 34% of the total Scottish population. The area also contains 35% of Scotland’s jobs, contributes more than 36% of Scotland’s exports and had annual economic output (GVA) of £36 billion in 2011. Glasgow City has strong interdependencies with all of the other neighbouring Clyde Valley authorities, and in particular with North Lanarkshire, East Renfrewshire, Renfrewshire and East Dunbartonshire.

In 2012/13 GCC received around £51 million in non-ring fenced capital grant, which the Scottish Government funds via its block grant from Westminster, however, Glasgow City Council currently has no visibility over this funding beyond 2015.

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 Glasgow City Region. 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. An infrastructure fund targeting net job and productivity (i.e. GVA) benefits would provide a mechanism for closing this gap, whilst also transparently setting out the scale of the challenge in terms of the local investment.

The development of an infrastructure fund for Glasgow will require an agreed governance arrangement for 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 will need to reflect the both the geography of the fund and the range of parties involved.

The progression of Glasgow as the first City Deal outside of England received a significant boost from the UK Chancellor in the Autumn Statement on December the 5^{th}, 2013 with the announcement that Glasgow would be provided with the status to invest in infrastructure. This enables Glasgow to engage directly with the UK treasury in the same manner as any of the England LEP's and provides a substantial step forward for the Deal.

Other cities, most notably Greater Birmingham and a number of Scottish cities, are putting themselves in a position to follow by undertaking real economy prioritisations of programs that are far larger than would be deliverable through their devolved budgets.

3. Infrastructure Funding in Queensland

The existing government model of infrastructure funding in Queensland is not altogether dissimilar to the United Kingdom approach prior to the UK Cities Model. Similarities include:

- funding is typically grant based whereby grants are not fixed by geographic region;
- projects are prioritised on the basis of individual business case merit; and
- while the long-term economic impacts of transport infrastructure investment are considered, they are not the primary benchmark for funding allocation.

In Queensland, funding for infrastructure is tiered in line with the scale and scope of the infrastructure asset, with local government responsible for local roads and some local trunk infrastructure. The State government takes leadership role for projects of State-wide/ regional benefit and the Commonwealth government leads on projects of inter-State and national significance. Despite these roles, funding contributions for any project are often mixed.

In Queensland, the State Government funding coordination and delivery occurs through a number of government departments and entities (eg government owned corporations and statutory bodies/authorities). These government entities and initiatives provide overall structure to governance in infrastructure delivery. Additionally, all tiers of government play a role in the prioritisation of infrastructure projects and the way in which they are funded.

3.1. Policy settings driving the infrastructure agenda in Queensland

Infrastructure prioritisation and funding in Queensland is currently driven by state level strategic priorities and associated policies. The key drivers and reforms that are currently influencing the current infrastructure agenda have been summarised below.

Four Pillars of Economic Growth

The Queensland Government is intent on delivering infrastructure that achieves the whole of Government commitment to develop a four pillar economy for Queensland. The 'Four Pillar' strategy is aimed at developing a more productive and resilient economy. It is intended that this will assist Queensland people and businesses to be competitive in a globalised economy. Emphasis has been placed on developing the tourism, agriculture, resources and construction sectors. The overall goal is to encourage business activity, boost job creation and facilitate an improvement in the State's financial situation

Economic growth and increased strength is expected to be achieved through targeted investment in nationally significant networks and ports. This investment will result in increased productivity and economic resilience and also assist in unlocking bottlenecks that are evident in building Queensland's long term productivity and growth capabilities.

The 'Four Pillar' strategy will influence the way in which infrastructure investment is prioritised across the state. It is expected that priority will be given to infrastructure investment initiatives that will develop tourism, agriculture, resource or construction sector economic growth.

The Queensland Plan

The working draft of the Queensland Plan (released in December, 2013) has been developed by the Queensland Government to outline a 30 year vision for the State. It outlines nine foundation areas for the future of the State including education, community, regions, economy, health and wellbeing, environment, people, infrastructure and governance.

As one of the nine foundation areas, infrastructure is clearly identified as an area of priority for investment to drive the future that Queenslanders want. More than simply investment, though, the vision seeks investment in the right infrastructure and locations to support the growth of the State. This is reflected in the preliminary target for infrastructure: '*the right infrastructure is delivered in the right place at the right time*'.

The 'right place' and 'right time' refer to an infrastructure footprint that: meets the needs of Queensland's growing population and business community; is funded in a manner that reflects the fiscal constraint of the State; is designed to last; and improves the accessibility and connectivity of Queenslanders. These goals are summarised in the table below and provide a useful reference for policy reform to ensure that infrastructure investment frameworks reflect the desired future state for Queensland's infrastructure network.

Table 2: Draft Queensland Plan Goals and Success Framework

Preliminary Target	What Do Queenslanders Want?	What Does Success Look Like?
***The right infrastructure is delivered in the right place at the right time*.**	• Our infrastructure fits our changing population and demographics	• We take a long-term approach to planning and delivery through infrastructure • We deliver essential services effectively • We use existing infrastructure effectively
	• Our regions, businesses and communities reach their full potential	• We have effective access to keep the economy moving • We deliver economic, social and community benefits through infrastructure
	• Infrastructure is funded in a variety of ways	• We use public funds more efficiently • There is an increase in private investment
	• Infrastructure is designed and built with longevity in mind	• Our infrastructure is resilient • We use technology effectively
	• Infrastructure provides connectivity and accessibility across the state	• Our transport system is integrated • Our communications system is integrated

Source: Queensland Government (2013) 'The Queensland Plan: A 30 Year Vision for Queensland' December 2013

Infrastructure for Economic Development

Infrastructure for Economic Development is one of the six key objectives in the broader Governing for Growth strategy developed by the Queensland Government. This state-wide initiative is aimed at increasing economic growth over the next decade with a focus on the 'Four Pillar' economy, boosting productivity and reducing unemployment. The effective planning and prioritisation of infrastructure projects will be a driving factor in ensuring economic development in these key areas.

Economic infrastructure is defined as physical assets like road, rail, water and power infrastructure that enable economic activity. It is envisaged that the way in which economic infrastructure is planned, prioritised, funded and delivered is set to change. Emphasis is now being placed on positively impacting productivity, economic growth levels and the ability to meet the service needs of the Queensland population.

The Queensland Government has highlighted that creative and symbiotic partnerships with the private sector will be essential in delivering economic infrastructure. It has been acknowledged that allocating risk between public and private sector parties, according to each party's ability to manage such risks, will facilitate a more effective delivery of key infrastructure to deliver economic benefits.

Included in the Infrastructure for Economic Development document are a number of key actions that the Queensland Government has committed to delivering. These actions include the development of a prioritisation framework, reviewing many regional infrastructure plans and the exploration of various options to better utilise current infrastructure assets. DSDIP are currently preparing the Economic Infrastructure Prioritisation Framework and Tool which will assist in the overall infrastructure delivery process.

Infrastructure prioritisation and delivery will play a major role in the future economic development of Queensland and this is reflected in the government's economic strategy, the fiscal repair task and the state's long term 'Four Pillar' vision.

Priority Projects

The Queensland Government has highlighted a number of short to medium term infrastructure commitments and priorities independent of the prioritisation process expected to be finalised under Infrastructure for Economic Development. These projects have been specifically highlighted as assisting the realisation of the 'Four Pillar' strategy and subsequent economic growth for the state. They are regarded as 'nationally significant' priority projects for the state. These projects include:

- Bruce Highway works including Cooroy to Curra (Section A); and Yeppen Floodplain Upgrade;
- Toowoomba Second Range Crossing; and
- Brisbane Inner Rail Solution (Underground Bus and Train project).

In addition, a number of 'Nation Building' projects have been identified as important to achieving positive economic outcomes for the state.

The Commonwealth Department of Infrastructure and Transport had identified these projects under the 'Nation Building Program'. The overarching objective of the Nation Building Program is to increase Australia's productivity through nationally significant transport infrastructure'. This clearly supports the overall objective of the Queensland State Government.

Queensland Planning and Infrastructure Reform

The State's planning and development assessment systems are in the process of being reformed to deliver a new planning framework, culminating in a review of the Sustainable Planning Act 2009 and the implementation of the Single Assessment Referral Agency (SARA) arrangements within DSDIP. The new planning framework and supporting regulatory refinements aim to streamline processes and provide greater certainty in assessment by streamlining assessment and approval processes; removing unnecessary red tape; and re-empowering local governments to plan for their communities.

These outcomes are central to the Government's economic agenda to drive growth and prosperity. These reforms also place DSDIP, and other Queensland Government Departments like Queensland Treasury and Trade, at the centre of government's planning and approval regime requiring it to balance multiple internal and external stakeholder demands and placing pressure on the Department in the delivery of key services across the state.

Simultaneously, DSDIP is currently leading a process of reforming the local infrastructure charging framework. While this process is aimed at achieving certainty, equity, local authority financial sustainability and development feasibility, the final policy settings to deliver these outcomes is still to be finalised.

Accordingly, the Department faces the continued challenge of balancing often competing stakeholder interests to ensure that the charges framework support the financial viability and planning outcomes of local government with a competitive Queensland development sector. It is a challenge to manage outcomes, expectations and the delivery of strategic infrastructure projects across the state, particularly given the current fiscal context where infrastructure demands exceed Government's financial capacity.

DSDIP has whole of government responsibility for developing the Queensland Infrastructure Plan and related prioritisation frameworks that are focussed on economic outcomes. DSDIP's role in framing and delivering the appropriate prioritisation framework is central the Government's overarching state development objectives including providing guidance to the private sector on investment opportunities. The ability of the Department to facilitate private sector partnerships to deliver infrastructure is a key challenge for DSDIP as it requires the consideration of not only Government objectives, but the objectives and risk appetite of private sector partners.

3.2. Roles and responsibilities for infrastructure funding in Queensland

The Queensland Government is committed to working with, and advocating to, the Federal Government, Infrastructure Australia and other infrastructure delivery bodies, to facilitate the development of high priority infrastructure across the state. At present, infrastructure delivery is funded through a three tiered approach from Local, State and Federal Government bodies. The coordinated approach to infrastructure funding in Queensland is described below.

Funding Responsibility

The table below summarises the infrastructure funding responsibilities of each tier of government. Responsibility is largely aligned with the scope of benefits likely to be delivered by infrastructure investment. This responsibility is overlaid by the greater capacity of higher tiers of government to source funding to invest in larger scale infrastructure projects.

Table 3: Current Funding Responsibilities

Tier	Funding Responsibility
Local Government	At the local government level, the 'local road networks and other fixed assets' account for the greatest share of infrastructure assets, accounting for around 80% of Queensland local government non-financial assets in 2010.4 Local government is responsible for the delivery of other local trunk and community infrastructure networks.
State Government	The Queensland government has a series of roles to play around infrastructure prioritisation and funding. These include strategic guidance, provision of grant funding to local government and liaison with the Commonwealth government to seek grant based funding. State government is a major funder of State transport networks as well as investing in broader State service responsibilities (health, education, justice etc.).
Federal Government	The Commonwealth government facilitates the transfer of funding to other tiers of government through grant funding for projects of national significance. The most visible of these is the Nation Building Fund, which was established in 2008 to facilitate the funding of critical infrastructure in the transport, communications, water and energy sectors of the economy.

Source: KPMG

Funding Flows

Higher tiers of government have a greater revenue collection capacity, and accordingly have a greater capacity to invest in infrastructure projects of broader state or national significance. This revenue is currently distributed downwards to lower tiers of government through a series of tied and untied grant funding mechanisms. This relationship is described in the table and figure below and overleaf.

Table 4: Current Revenue Collection Flows

Tier	Revenue Flows
Local Government	Councils collect revenue from four primary sources to fulfill their service requirements (including infrastructure investment). These include development contributions/infrastructure charges, rates, sales of goods and services, and government grants.
State Government	State funding can be divided between state-sourced returns (taxation, interest, and sales of goods and services) and Commonwealth grants (GST distributions, grants for on-passing and grants for specific purposes). Some funding is provided by the State to local government (e.g. LGGSP IS) but it also makes significant contributions to nationally significant projects.

[4] Australian Centre of Excellence for Local Government (2012) Local Government Fact Sheet 3: Local Roads, Buildings and Land

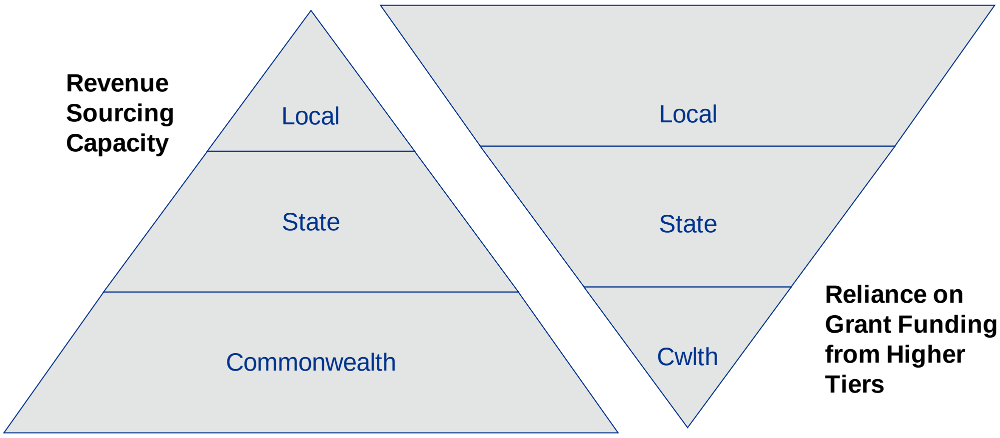
Tier	Revenue Flows
Federal Government	Commonwealth funding is sourced through a range of taxation avenues, with the largest contributors including individual, company and sales taxes. Commonwealth uses these to fund its own operations and also provides grants to both State and Local governments.

Source: KPMG

The revenue base for Local Governments is far smaller than the Commonwealth. This has resulted in an increased reliance by Local Governments on higher tier funding for infrastructure funding and delivery, and the contribution of the development sector to infrastructure charges and/or provision of infrastructure as a condition of development approval.

The delivery of infrastructure is currently dependant on this three tiered coordination for funding.

Figure 5: Relative Reliance of Government on Other Tiers for Funding



Source: KPMG

Local Government Grants and Subsidies Program Infrastructure Subsidy

The Queensland Government; through the Local Government Grants and Subsidies Program Infrastructure Subsidy (LGGSP IS), allocates funding to assist local governments in delivering priority infrastructure that meets the needs of Local Government communities.

The objectives of the LGGSP IS are to support eligible Local Government applicants with the capital costs for essential infrastructure construction and upgrade works that:

- support economic development activities and community infrastructure including security measures in public places;
- respond to growth pressures;
- meet identified needs and priorities of local communities; and
- are supported by the community.

Grants under this program are subject to specific reporting and regulatory provisions by Local Governments as required by the Queensland State Government.

Funding Challenges

Under the current model there are two core challenges that consistently arise around infrastructure prioritisation and investment. These include:

- There is a substantial, growing gap between the identified demand for infrastructure investment, and the capacity of government (at all tiers) to respond and fund the infrastructure required to meet this demand.
- The relatively short-term outlook of current budget planning processes. This creates challenges for developing certainty around medium and longer-term infrastructure investment priorities and relative certainty of investment. This will be resolved to some extent through the development of an infrastructure prioritisation tool. Nevertheless, this tool alone, will not resolve disparity in local, state and federal prioritisation processes. Nor will it address the funding gap required to meet infrastructure investment demand.

Accordingly, new methods of infrastructure funding and collaborative agreement are required to resolve current funding shortfalls.

3.3. Can the UK Model assist?

This scoping study seeks to understand if elements of the UK Cities Deal model can assist Queensland in meeting its significant infrastructure funding challenges.

While there are structural differences between the UK and Australian context, (i.e. the tiers of government and associated taxation structure), the infrastructure funding challenges and debate prior to the implementation of the UK Cities Deal are markedly similar. In many respects, recent reform in Queensland to move toward a framework of infrastructure prioritisation has placed the state ahead of the UK prior to the commencement of their reform process.

Prior to the development of the UK Cities Deal model, driven by GM, infrastructure funding in the UK was based on a process of project-by-project bidding to the DfT by local authorities. As part of each national level spending round, a national total budget was agreed between the DfT and HM Treasury for investment in city region specific infrastructure. At the city level, budgets were not allocated geographically and there was little transparency about what the total budget was or what a city might expect to get in the natural course of events.

This scenario is currently replicated in an Australian context, with local and state jurisdictions continually competing for a limited pool of grant funding from higher tiers of government. This process is repeated annually in line with budgetary deliberations, reducing certainty of investment, limiting productivity realisation, and causing a higher level of risk for private sector infrastructure investment. Many Cities and regions in the UK are recognising the potential for the (GM driven) model to respond to these challenges and have embarked on developing their own version of the model.

Globally, no other jurisdiction has developed an alternative model capable of delivering a step change in infrastructure investment as witnessed in GM. Accordingly, there is real merit in determining the optimal model to draw on the strengths of the UK City Deal model through a bespoke approach developed for the Australian context.

4. What elements of the UK approach are relevant for Queensland?

By understanding the similarities, differences, and more importantly, the relevance of key elements of the UK City Deal model for a Queensland context, a clearer concept of a potential model for Queensland can be developed.

For the purposes of comparison, the South-East Queensland (SEQ) region has been utilised as a reference region for the comparison of key governance parameters. This reflects the relative maturity of regional governance arrangements in SEQ and the significance of the region to the broader state economy.

The two regions have a range of similarities, including the number of local authorities (10), and while Greater Manchester has a relatively higher population density, both regions have a similar metropolitan structure of a range of activity centres linked to a single principle activity centre (Manchester/ Brisbane).

For the purposes of this scoping document, the two region's similarities and differences have been assessed on the basis of the three pillars that underpin the UK City Deal concept. They are:

- Establishing Governance and Metrics;
- Real Economy Prioritisation; and
- Establishing Funding Parameters.

4.1. Pillar One – Establishing Governance and Metrics

Governance

Both SEQ and GM have a history of strong regional metropolitan governance. The UK City Deal model employed in GM has a distinct governance structure that has evolved to reflect local planning challenges. When compared with CoMSEQ, the GMCA constitution is more complex, though this is reflective of the broader roles that the GMCA currently plays in transport planning, infrastructure prioritisation and delivery.

CoMSEQ performs a similar role to that of the Association of Greater Manchester Authorities (AGMA) which preceded the GMCA. It has been established to collectively advocate on behalf of and represent the interests of ten local governments in South East Queensland similar to the AGMA for the ten local authorities in Manchester.

In establishing the GMCA, the UK recognised the importance of having a governance structure and decision making process that is transparent and enables accountability. Transparency in funding responsibilities and commitments was also a core tenet in the establishment of the GMCA. These foundations have enabled the GMCA to act on behalf of their regional constituents and make key binding decisions around infrastructure prioritisation and investment.

The transition from the AGMA to the GMCA has also highlighted the importance of any new governance structure being established collaboratively in partnership between all relevant local authorities.

While CoMSEQ currently acts primarily as an advocacy body, they operate under a constitutional arrangement that bares similarities to the constitutional arrangements that govern the GMCA. A comparison of key constitutional and functional arrangements for both the GMCA (and associated entities) and CoMSEQ is detailed in the table overleaf.

Entity Establishment

The **GMCA is a statutory authority**, whose decisions are **legally binding** under central government legislation. **CoMSEQ is a voluntary authority** that seeks to advocate for local councils in South East Queensland.

Key characteristics of the scope of each entity are outlined below.

Table 5: GMCA and CoMSEQ Entity Scope

GMCA	CoMSEQ
• Includes the GMCA, TfGM, TfGMC, BLC, LEP and GMLTB. • Governed as a Combined Authority under the Local Democracy, Economic Development and Construction Act 2009. • GMCA Membership is limited to a single elected member for each contributing authority (Local Council). • Subcommittees (such as TfGMC, BLC, LEP and GMLTB) of the GMCA are governed by the statutory arrangements in the GMCA Constitution and Operating Agreement.	• Membership is limited to 50 members • The Chairman and Deputy Chairman will be appointed by the Board. • The Company shall have no less than 5 directors and up to 15 • (Clause 2.8) The Company's activities will not be carried on for the purposes of profit or gain to its members and may only engage in a business or activity that furthers the pursuit of the Objects in Clause 2.6. The profits, financial surplus and property of the company shall be applied solely towards the objects of the Company, and no proportion of them shall be paid or transferred, directly or indirectly to any member of the Company whether by way of dividend bonus or otherwise.

Source: GMCA Constitution, 2013; and Constitution of Council of Mayors (SEQ) Pty Ltd (2012)

Accountability and Responsibility

The statutory nature of the GMCA allows for a **greater degree of responsibility and controls** in the strategic and spatial planning of Greater Manchester. CoMSEQ is a participant in strategic and spatial planning processes; however is **limited to a supporting role** in this process.

Table 6: GMCA and CoMSEQ Accountability

GMCA	CoMSEQ
• The GMCA has a broad range of statutory responsibilities for which it is responsible. The GMCA is a local authority for the purpose of Section 101 of the Local Government Act 1972 (arrangements for the discharge of functions by local authorities). It has similar powers to its Constituent Councils with relation to appointment of staff, borrowing of money, acquisition of land (by agreement or compulsorily), and the execution of other duties as it considers appropriate for the purpose of carrying out any of its functions. • The functions of GMCA can be broadly divided into 'transport' and 'economic development and regeneration' responsibilities. • Core decisions around the prioritisation and funding of these functions are provided by TfGMC. • The Order provided for a series of economic development and regeneration functions of the Constituent Councils to be concurrently delivered by the GMCA and the Constituent Councils • The GMLTB, of which the GMCA, TfGMC, GMLEP and BLC are members; is responsible for the prioritisation and funding pillars that are central to the Greater Manchester City Deal. • Statutory and binding links to guiding strategic and spatial planning	Clause 2.6: The objects for which the company is established are:- • to be a political advocacy organisation that represents the interests of the residents of members of the Company; • to proactively influence Federal and State Governments to ensure the long term viability , well being and sustainability of the residents of the members of the Company. • to speak with one voice to ensure appropriate funding and delivery of infrastructure and services for the residents of the members of the Company. • to formulate policies and strategies that support coordinated regional growth and management of change; • to foster co-operation amongst members on issues of mutual concern or to further joint interests; • to act as an advocate to State and Federal Governments or Public Bodies on issues of concern to members; • to collectively represent members on bodies that influence the operations of the State, regional and sub-regions and the communities of individual members; and • to ensure relevance of the strategic priorities for the region through an annual review.

Source: GMCA Constitution, 2013; and Constitution of Council of Mayors (SEQ) Pty Ltd (2012)

Resourcing and Funding Requirements

Operational funding is sourced similarly between the GMCA and CoMSEQ however ***the GMCA operating budget is significantly higher than CoMSEQ***. This reflects the significant additional responsibility of the regional entity for transport and economic regeneration functions across all Councils in the GM region. A table summarising relative income levels between the two authorities in provided overleaf.

In both instances, **funding is primarily sourced from local councils**, with additional funding provided by higher tiers of government on a grant basis. The key differences are that the funding used by **CoMSEQ is for advocacy purposes**, and the **GMCA uses funds for specific infrastructure program delivery**. In addition, **higher tier funding granted in GM is guaranteed**, whereas higher tier funding utilised by **CoMSEQ is granted on a project by project basis.**

Table 7: GMCA and CoMSEQ Resourcing

GMCA	CoMSEQ
• According to the GMCA Constitution, the Constituent Councils shall meet the costs of the GMCA that are reasonably attributable to the exercise of the GMCA's functions. • The funding amount payable by each of the Constituent Councils in relation to the costs of the GMCA's functions shall be determined by apportioning the costs of the GMCA between the Constituent Councils in such proportions as they agree.	Clause 2.3A of the CoMSEQ Constitution states: • Each member must pay an annual fee to the company as determined by the board • Each member must also pay any contribution towards the cost of operating of and undertaking any projects for, the company as determined by the board from time to time • any failure to pay any annual fee or contribution may result in the offending member forfeiting its share in the company as determined by the board • a member at any time may resign by notice in writing to the board provided that all outstanding memberships fees and contributions have been paid and the share of that member will be forfeited to the company • a resolution to set annual fees or contributions should be distributed to members at least 14 days prior to consideration by the Board. • a resolution to set the annual fee or contributions towards the operating costs of the company must be supported by an absolute majority of the Board to be passed. • a resolution to set contributions towards the cost of undertaking any projects for the company must be supported by a two-thirds majority of the Board to be passed.

Source: GMCA Constitution, 2013; and Constitution of Council of Mayors (SEQ) Pty Ltd (2012)

The resources available to both CoMSEQ and GMCA are summarised in the tables below. These tables outline the revenue collected by each entity in the most recent 2012/13 financial year and presented in their respective annual reports.

Table 8: CoMSEQ Revenue, 2012/13

Revenue Source	2012/13 Actual Revenue ($'000)
Administration and Project Levy Contributions	$1,581
Consultancy Fee Revenue	$0
Federal and State Funding	$0
Other Income	$222
Services Received in Kind	$33
Interest Revenue	$101
Total Income	**$1,939**

Source: Council of Mayors (SEQ) Annual Report, 2012/13

Table 9: GMCA Revenue, 2012/13

Revenue Source	2012/13 Actual Revenue (£'000)
Transport Functions	
Transport Levy	£191,211
Government Grants	£14,530
Section 278 Commuted Sum	£25
Traffic Signal Repairs	£160
Economic Regeneration Functions	
Charges to Districts	£2,813
Government Grants	£13,558
Other Revenue	
Interest Revenue	£149
Total Income	**£222,446**

Source: Greater Manchester Combined Authority Annual Statement of Accounts, Year Ended 31st March 2013

Decision Making Powers

The GMCA and the CoMSEQ constitutional arrangements are similar regarding decision making powers. Decisions in both instances are made through a **majority rules voting system**, with Board members able to cast votes. The key difference however is that **decisions made by the GMCA are legally binding whereas decisions made by the CoMSEQ are not**.

Table 10: GMCA and CoMSEQ Decision Making Powers

GMCA	CoMSEQ
• According to the Constitution, questions that are to be decided by the GMCA relating to the following matters require that at least 7 Members of the GMCA, or Substitute Member(s) acting in place of Member(s), vote in favour for any vote to be carried. • These voting procedures are reflective of a Combined Authority that utilises majority rule decision making. The majority rule procedures are in place to maintain fairness between Constituent Councils and seek to achieve the overall goals set for the GMCA • Furthermore, all meetings are open to the public (some exceptions apply), including the media, highlighting a high level of transactional transparency. • This high level of transparency is generally reflective of a Combined Authority that is operating for the overall good of the community, the economy and regeneration interests, rather than for self-promoting interests for the GMCA	• Decision making is the responsibility of CoMSEQ Directors, not members. • According to the Constitution, any questions arising at a meeting of the Directors shall be decided by a majority of votes of the Directors present and competent to vote thereon and any such decision shall, for all purposes, be deemed to be a decision of the Directors. • Each director has one vote and a majority rule voting procedure is followed. • In the case of an equality of votes, the chairman of the meeting will not have a casting vote, in addition to a deliberative vote

Source: GMCA Constitution, 2013; and Constitution of Council of Mayors (SEQ) Pty Ltd (2012)

Metrics

The GM City Deal model is based on determining the agreed metrics up front so as to provide a real economy focus. This, combined with supporting metrics (program minima), ensure that there is balance in benefits across an area to ensure local agreement. The GM model uses metrics that are focused on economic output to minimise the potential for distortion in results.

The Queensland Government, through the Treasury Department, utilises a Value for Money (VFM) framework for assessing infrastructure projects. This VFM framework is encapsulated within the Project Assurance Framework (PAF). The PAF outlines the minimum standard for project initiation, evaluation, procurement and assurance across Queensland Government agencies in order to deliver value for money from significant investment in infrastructure projects.

The key difference between the GM City Deal and the Queensland environment is the overall objective of each arrangement with regards to metric development. In the GM context, all infrastructure programs are assessed using a fixed set of objectives set to achieve an overall goal for the combined area (eg increase productivity). In the Queensland context, each specific project is assessed against individual metrics to determine the overall merit of the project in isolation (eg. A busway infrastructure project may be assessed against travel time metrics whereas a rail line project may be assessed using export tonnage focused metrics). Included in this framework are metrics that are determined by the State Government for each specific project type. In addition, the Queensland government utilises traditional cost benefit assessment methods, which includes metrics such as travel time savings and operational cost savings, as part of the decision making process related to the specific infrastructure program.

The GM approach is also reliant upon the acceptance of Wider Economic Benefits (WEBs) in transport infrastructure assessment and the Central Government modelling of baseline projections for GVA and associated revenue. While WEBs are increasingly being required for Commonwealth funding applications in Australia, they remain relatively less mature in their acceptance. Similarly, while in Australia, GVA estimates are typically retrospective and estimated at the national level. Forecasts are prepared by both independent and State owned modelling tools.

4.2. Pillar Two – Real Economy Prioritisation

Program Prioritisation

The GM City Deal has a relatively regimented method of program prioritisation compared to the methods currently employed in Queensland.

As previously outlined, the GM City Deal model prioritises programs based on pre-determined key objectives and program minima. Under the GMCA model of prioritisation, there are clear metrics and benefits that are used to determine program priority in comparison to other infrastructure programs in the combined area.

In the UK setting significant effort is put into getting the program metrics right at the outset, before the prioritisation is undertaken. The aim is to avoid attempts further into the prioritisation process to redefine the criteria in order to change program rankings. While this independent approach currently is not applied, it could be considered. Steps are currently being taken at a Queensland State Infrastructure Plan level; however these are yet to be considered for state, regional or local application.

In Queensland, the State Government plays a significant role in determining the priority level of specific infrastructure projects. Applications for approval, or even funding, made to the Queensland State Government are subject to a rigorous assessment process which includes economic impact analysis, cost benefit analysis, and depending on the scale of the project, even more detailed assessment of economic, environmental and community impacts.

In Queensland, at the local level, planning and delivery of infrastructure is facilitated by Local Government in line with plans or local budgets with little financial contribution from the State Government. The Queensland State Government however is responsible for regional planning which provides statutory guidelines that influence the planning and infrastructure delivery.

Additionally, Local Councils in Queensland are also responsible for determining the priority level of specific infrastructure projects. Priority Infrastructure Plans (PIP) are a key tool utilised by Local Councils to determine the priority level of specific trunk infrastructure projects and the sequencing of their delivery. This being said, prioritisation is undertaken on a Local Government by Local Government basis with only some guidance from the State Government regarding larger regional planning and strategies. There is little consideration given to a wider regional approach to infrastructure delivery made by Local Councils.

The prioritisation of infrastructure in Queensland is also driven by productivity impacts; however the capture of Wider Economic Benefits (WEBs) is less mature in this process compared to the UK.

The primary difference between program prioritisation in the UK City deal model and the model currently employed in Queensland is the level of collaboration between Local Governments. In the UK, there is a coordinated approach to infrastructure delivery, whereas in Queensland, infrastructure is prioritised with respect to the immediate region in which the project is located. In Queensland, there is little regard taken for cross agency or cross boundary prioritisation of specific infrastructure projects.

4.3. Pillar Three – Establishing Funding Parameters

Baseline Budget

The GMCA established its baseline budget through measures detailed in their constitution. GCMA contributing authorities, namely Local Councils, are each responsible of contributing a pre-determined amount of funding each year. This budget is determined on a per capita basis and is placed into a collective pool of funds. This collection pool of funds also includes the funding committed by Central Government.

Infrastructure funding in Queensland is different to the UK in that there are three tiers of contribution, compared to only two tiers in the UK.

In Queensland, the local government contributes funding for 'local road networks and other fixed assets'. Local government is responsible for the delivery of other local trunk and sub-regional infrastructure networks. The Queensland government contributes funding for state and regionally significant infrastructure, provision of grant funding to local government and liaison with the Commonwealth government to seek grant based funding.

Infrastructure funding in Queensland is undertaken on a project by project basis with global funding levels not guaranteed from year to year. The State Government will provide certain levels of funding to infrastructure projects that are deemed to have regional or state significance. On a whole, State Government funding is somewhat critical to the delivery of any large scale infrastructure project given the obvious limitations of Local Councils to generate sufficient capital.

The primary difference is the funding role of the Local Government. In the GM context, it is the primary responsibility of Central Government to fund sub-regional and local infrastructure delivery. In the SEQ context, this responsibility is each Local Government individually or maybe the subject of debate between State and Local government (for example, sub-regional transport infrastructure to SEQ Greenfield areas such as Ripley, Caloundra South). It can therefore be determined that in SEQ, the establishment of a State Government baseline budget would require detailed analysis of current state funding allocations and potential policy considerations..

Self-Help

In the UK City Deal context, self help is any additional funding, contributed by local sources, over and above standard budget allocation. It can include revenues, tolls, value capture levies, developer contributions and any dedicated local taxes that are not committed to projects in the usual course of events.

The primary feature of this City Deal mechanism is that the lower tier of government is making some difficult decisions and in doing so, is adding to total funding available for infrastructure investment. This means that infrastructure programs that are of a lower priority have a higher likelihood of obtaining funding.

A key element of the UK approach that could be considered in Queensland is the regional approach to infrastructure prioritisation and funding to better leverage the scale of Local Government funding contributions to better utilise funds across the region.

Payment by Results

In the GM context, the GMCA, and ultimately, each contributing authority, benefit from achieving the set objectives of the City Deal. Additional benefits that are achieved beyond the set objective of the deal are reinvested in the local region. This reinforces the incentives created by the initial move to baseline budgets and real economy prioritisation, making it clear to local decision makers and stakeholders why they should follow through on the logic of the approach. At the same time this ensures that a region receives its fair share of the fiscal benefits its extra efforts create.

In Queensland, there is not yet the complexity in funding or financial arrangements that accounts for and guides the reinvestment of additional benefits generated by infrastructure investment. Instead, additional tax uplift is aggregated into consolidated revenue at the state and local level.

Industry bodies in Queensland have raised the notion of tax increment financing opportunities for infrastructure delivery; however this advocacy has yet to result in the implementation of a TIF scheme for a specific infrastructure project. However, the recent commitments by the State Government to progress large scale CBD underground bus and rail capacity projects and associated precinct redevelopment is generating increased focus on value capture thinking.

4.4. Additional Key Considerations for the Development of a Queensland Model

This preliminary assessment has identified a number of considerations that will shape the development of a bespoke infrastructure funding model for Queensland. As detailed previously, the three pillars of the UK approach, namely Governance and Metrics, Prioritisation and Funding Parameters, are pivotal factors that will shape domestic thinking. These pillars however, must be considered in conjunction with the scope of infrastructure to be included in any infrastructure funding model, the will of State and Local Government to devolve decision making around infrastructure investment to an independent assessment process and ultimately stakeholder/ community acceptance of any new approach to infrastructure funding and prioritisation. These considerations are discussed in further detail below.

Scope of Infrastructure

In the UK, the Deals that have been agreed to date are predominantly transport oriented. Nevertheless, there are deals that are currently being established that account for urban regeneration and housing investment as well as transport infrastructure. In determining the benefit of investment in infrastructure programs within the defined scope, modelling primarily focuses on the improved connectivity of bringing employment (jobs) and housing closer together. Accordingly, there are lessons that can be drawn from the UK experience; however the scope of infrastructure for consideration in the Queensland context will likely be unique given a focus on enabling trunk infrastructure investment.

This scoping paper considers the benefits of residential and non-residential land investment and development in Queensland, however the focus of an alternative infrastructure model should be more targeted at unlocking the enabling infrastructure required to realise housing and employment outcomes. This refocuses the primary objective of a bespoke model for Queensland from the actual development of land, to the development of trunk infrastructure that will realise the construction of housing and employment land uses.

In Queensland, a clear articulation of model scope will be required to ensure a centralised model can be applied to prioritise infrastructure projects within the determined scope. In addition, key metrics and minima must be tailored to the Queensland context to effectively cater to the selected infrastructure scope and regional characteristics. Minima should be set to reduce the potential dominance of any one particular area within the model's set geography.

The Will to Devolve Powers

A key feature of the UK City Deal model was the drive from central government to devolve significant new powers, authority and financial autonomy to local government.

At the centre of this devolution was providing local authorities with direct control and accountability for decisions that affect their area and input on how public funds were spent. Instead of being able to act only where the Central Government stipulated that they could, local authorities are now free to invest in their own economic development on the basis that local growth equates to national growth. Devolution and local accountability is a theme underpinning dimensions of the current Queensland Government's approach to service delivery. Service delivery reforms in health and education are centred on local input and local accountability. Similarly, legislative amendments in the local government sector and planning and development areas are focussed on removing unnecessary regulatory burden to deliver stronger decentralised authority arrangements.

In a Queensland context, the political foundation could emerge to foster the devolution, however, it is unclear if this would translate at this point to facilitate an effective regional coordination and governance mechanism that was underpinned by the prioritisation of infrastructure investment decisions by an independent entity on the basis of agreed metrics.

Stakeholder and Community Acceptance

There was general acceptance in the UK of the City Deal model as it primarily focussed on redistribution of increases in national government business rate receipts as a result of economic investment or the raising private sector finance.

Engagement with key stakeholders and the community will be critical at key junctures to ensure that a similar level of agreement can be achieved in Queensland. In particular, a process of socialisation, education and engagement will be necessary to mitigate any negative concerns and refine the proposed model as appropriate.

The socialisation of the model prior to implementation should include a clear articulation of the model mechanics, benefit realisation process and overall funding and taxation flows. A clear articulation of the net benefits across stakeholder groups at an industry, government and community level is an important consideration in the design and implementation an alternative infrastructure funding model.

5. Parameters of a Potential Model for Queensland

The key attributes of the UK City Deal model were workshopped over several with the project steering committee. These attributes were considered against the backdrop of the Queensland infrastructure, planning and development environment to identify the elements of the UK City Deal Model that could be drawn upon to develop a tailored approach to local infrastructure funding for Queensland. The resulting approach has been termed an ***Economic Growth Partnership Model*** (EGPM) for infrastructure funding.

The term 'Economic Growth Partnership' has been recommended because it reflects the two core drivers that are consistent across all stakeholder groups at the government and industry levels involved in current infrastructure prioritisation and funding reform discussions.

Facilitating **economic growth** through the provision of enabling infrastructure to unlock new residential and economic development opportunities is a universal theme. This growth is critical to the second element of the term, the **partnership**, as it provides a mechanism for both the state and local government to reinvest derived revenue uplift into a rolling fund for ongoing infrastructure investment.

The term 'partnership' also reflects the collaborative approach that will need to underpin the relationships and behaviours that local governments will need to embrace if they are to adopt new models of shared decision making around sub-regional and local infrastructure priorities that may not always align with the priorities of an individual council.

5.1. Objectives of the Model

The objectives of the proposed Economic Growth Partnership Model (EGPM) are summarised in the table below. The model has been designed to unlock development opportunities through a new approach to infrastructure funding. The desired outcomes of this approach are economic growth across the region and the state, and improved financial sustainability for the partners in the economic growth partnership.

Economic growth refers to growth in **employment**, **improvement in productivity** and **improvement in development feasibility to stimulate development activity.** This will be measured across the model through uplift in Gross Regional Product across the region for which the model is applied.

Improved financial sustainability refers to the growth in **government revenue streams** associated with development, over and above the levels estimated without the investment under the model. The outcome also refers to a **reduction in long term infrastructure funding shortfalls** through the development of a new, sustainable, infrastructure funding mechanism.

Table 9: Desired Outcomes for an Economic Growth Partnership

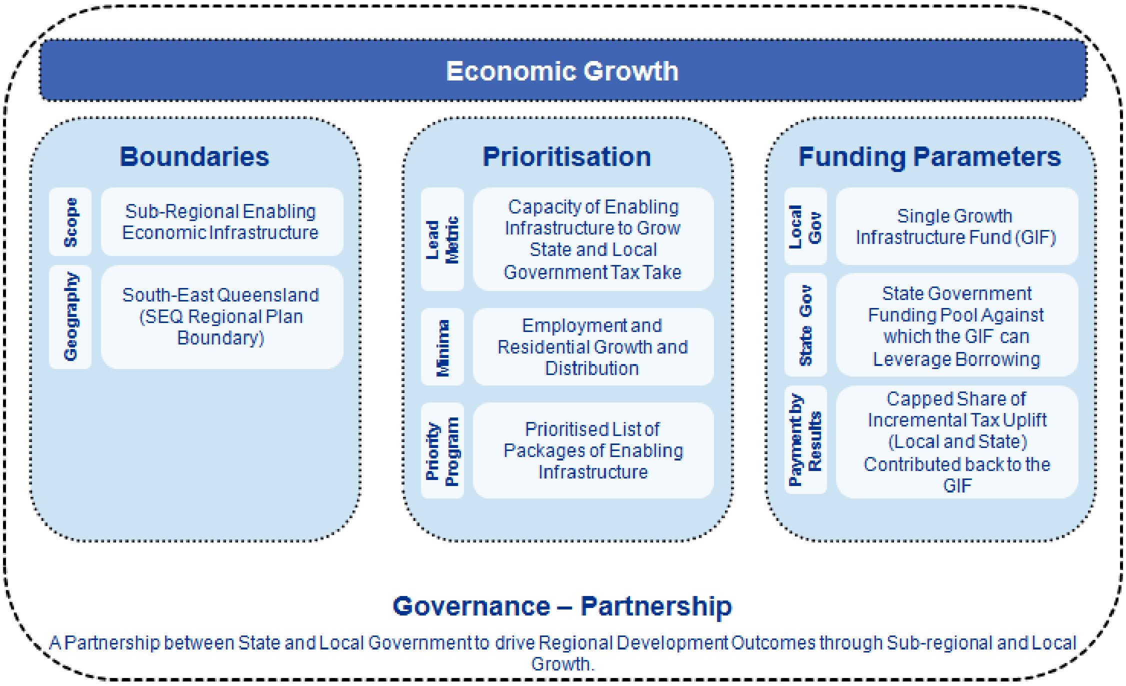
Desired Outcomes	Critical Success Factors
Economic Growth • Employment growth • Improved productivity • Improved development feasibility	**Change in Gross Regional Product**
Improved Financial Sustainability • Growth in state and local revenue streams associated with development • Reduction in long term infrastructure funding obligations	**No decline in long term financial position for State and Local government**

Source: KPMG

5.2. Structure of the Model

The Queensland Economic Growth Partnership Model has been developed on the basis of three pillars. While there are parallels with the UK City Deal Model, the approach to governance in particular represents a material departure. As outlined in the diagram below, the model has been built upon a foundation of a partnership approach to governance between state and local government. This foundation enables negotiation around infrastructure investment and prioritisation at a broader scope and geography than would have traditionally been considered. It enables the partners within these boundaries to approach infrastructure prioritisation around consistent metrics and agree to a new approach to funding that will ultimately grow revenues and economic activity across the State. This is represented in the outcome of 'economic growth' that straddles the three pillars.

Figure 6: Three Pillars of an Economic Growth Partnership Model



Source: KPMG

5.3. Boundaries

'Boundaries' is the first of the three pillars of the Economic Growth Partnership Model. The approach has intentionally been designed so that it could be scaled up or down depending upon the desire of the governing stakeholders in the partnership. This is similar to the UK in that the principles that underpin the other two pillars can be applied to a broader or narrower scope of infrastructure and geography, with the minimum threshold requirement that the investment be sufficient to realise quantifiable benefits for the governing entities. Accordingly, agreement to both the geographic boundaries of the infrastructure partnership, as well as the scope of the infrastructure for funding consideration is a critical first step for the EGPM.

Scope

The scope of the infrastructure that has been prioritised for investment under each of the UK City Deals has been materially different. While the Greater Manchester deal was scoped to prioritise regional transport investment, subsequent deals have focussed on housing development, economic regeneration projects and social infrastructure investment. Similarly, the approach proposed for a Queensland Economic Growth Partnership Model is different again.

The scope of the proposed Queensland partnership instead focuses on the prioritisation of ***sub-regional enabling economic infrastructure***. This infrastructure specifically refers to the sub-regional and local trunk infrastructure investment required to facilitate the development of new greenfield growth fronts (i.e. sewer, water and road investments) as well as brown field and infill development/ redevelopment (i.e. pipe widening, increased pump station capacity etc.).

The majority of this enabling infrastructure is captured in the Essential Infrastructure List published in the June 2013 Discussion Paper released by DSDIP entitled "Discussion Paper: Infrastructure Planning and Charging Framework Review". This example list has been included as Appendix 2 of this report. It is noted that consultation is underway to refine the final scope of assets to be included in the Essential Infrastructure List.

This scope of infrastructure reflects the core challenge that the steering group are seeking to resolve through the current scoping study; specifically that: there are limited funds available to fund the infrastructure needed to support residential, commercial and economic growth.

The difference in scale between the infrastructure being considered under the EGPM and the regional transport infrastructure investment in Manchester will imply material differences in the cost of infrastructure items, the grouping and number of infrastructure items and the flow-on economic benefit from any individual infrastructure investment. This will need to be taken into account when determining and refining the approach to infrastructure prioritisation.

Geography

The Economic Growth Partnership Model has been scoped to ensure that it can be applied to any region of Queensland. The key threshold for the determination of the appropriate geography is that the level of infrastructure investment being facilitated is sufficient to deliver a material uplift in taxation revenue to the local and state authorities, relative to the base case where no deal had been struck.

This scoping paper proposes that the ***South-East Queensland region*** (as defined under the SEQ Regional Plan) be the first region to test the potential of an EGPM. This has been determined on the basis of the region's deep history of formal collaboration around urban planning and infrastructure advocacy, including the existing formal structures provided by the for the Council of Mayors (SEQ). CoMSEQ provides an existing governance vehicle to facilitate local government collaboration and advocacy around collective policy priorities. Given the significance of infrastructure funding as a policy priority for SEQ local government authorities, there is a natural fit to leverage the role of CoMSEQ in coordinating local government collaboration on this issue.

It is recognised that a core driver of the Queensland Plan is strong regional outcomes. Accordingly, while SEQ has been used as a pilot for the model, it is expected that this model could be applied more universally across the State's regions.

While CoMSEQ currently does not represent the entire region covered under the SEQ Regional Plan (Gold Coast withdrew from the Council of Mayors (SEQ) at the start of the 2013/14 financial year), this should not preclude their involvement in an EGPM. Rather, this may present an opportunity for the Gold Coast to reassess their membership or for CoMSEQ to work with the Gold Coast on an area of mutual policy interest.

The region has also been chosen as the first region for testing of the EGPM as it has the greatest density of both residential and economic development activity and has the largest regional economy in the State. Accordingly, the SEQ Region has the greatest potential upside for taxation revenue growth through infrastructure investment and therefore the greatest likelihood of establishing a successful partnership with the state.

The SEQ Region also has a solid statutory foundation with the State's most mature regional planning framework. The current SEQ Regional Plan Review provides a mechanism for outlining the long term planning and development outcomes for the region. In doing so, it also provides an opportunity to examine the preferred sequence of development based on a more explicitly agreed infrastructure prioritisation process to assist with the most efficient provision of enabling infrastructure.

The EGPM presents an opportunity to prioritise infrastructure investment to align with the economic development objectives that underpin the SEQ Regional Plan. The EGPM provides a mechanism to 'hardwire' implementation of agreed SEQ Regional Plan outcomes through an effective funding approach to assist with delivering the enabling infrastructure.

5.4. Prioritisation

The EGPM proposes an agreement to prioritisation of infrastructure investment in line with an assessment of all competing infrastructure priorities against a consistent set of outcome oriented metrics. This prioritisation process will enable a transparent; quantitative approach to prioritising the enabling infrastructure to agreed growth areas.

The performance metrics against which infrastructure investment prioritisation is proposed have been divided into:

- A ***lead metric*** against which the performance of any infrastructure investment will be primarily measured; and
- A series of ***program minima*** which will be applied following prioritisation against the lead metric to adjust the order of the projects in the list to ensure that minimum threshold outcomes are also achieved.

Potential metrics that could be applied to prioritise infrastructure and the broad scope of a tool to facilitate this process is summarised below.

Lead Metric

The lead metric is the key metric that will govern the overall infrastructure investment program and how individual projects should be prioritised within that overall program. In the UK, the lead metric is GVA or Gross Value Added, as it is considered the best proxy for employment and economic growth. By measuring the program and assessing individual projects through their ability to drive GVA, projects which have a higher ability to drive economic growth, and therefore associated Central Government revenues, are prioritised under the UK Cities Model.

The Australian equivalent of GVA is Gross Regional Product (GRP) at the regional level and Gross State Product or GSP (at State level). In considering the appropriate metric for the Queensland EGPM, however, it is important to consider two core questions:

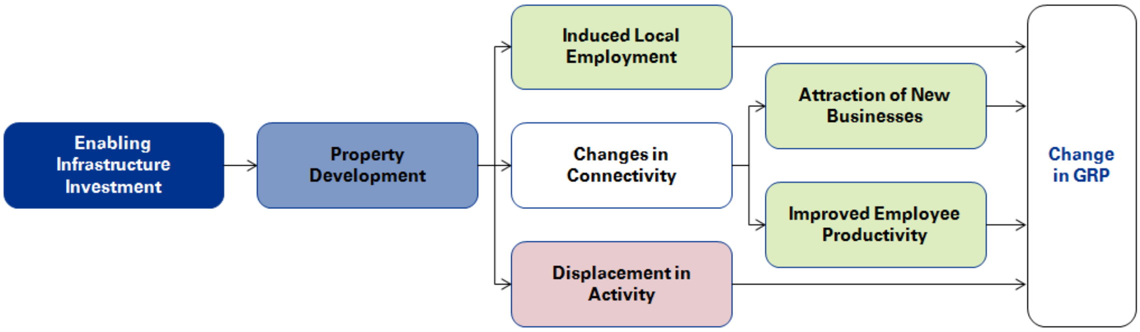
1. What is the core outcome sought by the scope of infrastructure investment proposed (as defined under 'Boundaries')?; and
2. Is there a tangible link between the outcomes sought (1) and the source of taxation (revenue) raised by the funding partners of the deal?

Criteria 1 – Alignment with Economic Growth

The proposed scope for the EGPM focuses on unlocking development activity and flow-on employment and productivity by overcoming the funding burden that faces local government and the development sector in financing trunk infrastructure investment. Members of the steering group have also identified housing choice and affordability and employment access as outcomes that they see as critical benefits of the partnership approach. On this basis, a GRP/ GSP lead metric that seeks to quantify the resultant land-use change benefits, productivity benefits and employment growth associated with improving the value of land use would appear to be appropriate to measure employment and productivity outcomes. The remainder of the nominated criteria could then be captured as program minima as individually, they do not capture the total benefit realised by the model.

The link between improved infrastructure investment and GRP/ GSP is summarised in the table below. The figure illustrates that property development has the potential to directly induce and/ or displace employment across a given geography. At the same time however, the location of development will result in a change in connectivity between residents and employment, between businesses and customers and between businesses. These changes create agglomeration economies that can materially alter productivity and have been shown to drive the attraction and creation of new business activity. Collectively, these factors all contributed to Gross Regional Product and ultimately Gross State Product.

Figure 7: The link between infrastructure investment and Gross Regional Product



Source: KPMG

While GRP appears to meet the first test for the lead metric, the link between GRP and the taxation revenue collected by State and Local Governments (the second criteria) is slightly less direct.

Criteria 2 – Alignment with Partner Funding Streams

The EGPM has been calibrated to focus on the relationship between the development sector, local and state government interests in local trunk infrastructure. This is consistent with the requirements of this scoping study. The model could, however, be scaled up to consider state or nationally significant infrastructure by exploring Commonwealth revenue flows and funding allocations.

The majority of local government revenue is collected through rates. This revenue stream is also supplemented by development contributions/infrastructure charges, grants from higher tiers of government and the sale of goods and services. Of these revenue streams however, rates will be the most readily impacted by an increase in property development, with a general rate calculation being a product of site value, a fixed rate value in the dollar and the number of properties being rated. Accordingly, while an increase in property development may result in an increase in GRP, GRP is not a primary determinant of rate revenue. Similarly, while an increase in GRP may improve the value of land in a region (i.e. increase economic activity in a location leads to greater perceived value) this is not a direct link.

At the state level, core streams of state sourced revenue include taxation (land taxes, stamp duty and payroll tax), interest and the sale of goods and services. The State also receives substantial funding from the Commonwealth Government in the form of grants (GST distributions, grants for on-passing, and grants for specific purposes). GSP provides a tangible link to some of these revenue streams, but not to others. The Commonwealth linked revenues have a relatively close alignment to GSP, with GST revenues (a sales tax) having a tangible link to GSP (the collective value of final goods and services produced in the economy, minus the value of intermediate inputs). The state sourced revenues, however, have a lesser link, with a growth in GRP/ GSP and growth in land value related taxation both resulting from development activity, but not being directly linked to it.

The core difference between Australia and the UK at a governance level (three tiers of government as compared with two) is reflected in the manner in which revenue for government is sourced. While GRP/GSP would be a suitable metric in a partnership with the Commonwealth Government (it aligns strongly with corporate tax and GST), the development of a partnership model between Local and State Government has resulted in a lesser correlation between GRP/GSP and revenue streams.

Given that GRP is strongly aligned with the desired outcomes for the partnership, a different metric may be required for measuring funding outcomes. The selection of an appropriate metric for funding measurement is discussed further in the context of the third pillar 'Funding'.

A lead metric for Prioritisation

Despite having a less direct nexus between infrastructure and revenue, *growth in Gross Regional Product* is considered the most appropriate lead metric for infrastructure investment prioritisation as it focuses the program on economic outcomes.

In selecting this metric however, further analysis will be required, including:

- broader consultation with state and local government representatives to agree on the applicability of the lead metric;
- once a headline metric is agreed (or preferred) practically analysing how this metric can be used, at a granular level, in terms of its day to day availability, ability to measure the contribution of an infrastructure investment program and also individual projects;
- agreeing whether and how to develop a Land Use and Transport Interaction (LUTI) model that can support the headline metric by reliably estimating the changes in land use that will be facilitated by changes in transport accessibility, as well as the transport implications for the facilitation of new development through trunk infrastructure investment;
- agreeing whether to develop or use an existing model to assess the productivity impacts/ Wider Economic Benefits. Ideally, this will be based on the Computable General Equilibrium (CGE) framework (termed as Spatial GE model) and how to best use a CGE model to assess the economic impacts associated with the capital expenditure.
- ensuring that the modelling framework for assessing the lead metric is agreed in advance of undertaking the prioritisation to ensure that the discussions on the outcomes of the prioritisation process do not become burdened by the discussion on the prioritisation approach and the modelling framework; and
- determining and agreeing with the State Government a base year for the benchmark of the metric, as well as a projection of base case (no-deal scenario) performance of that metric.

Importantly, the regions that have been most successful in using the UK Cities Model have undertaken the work on the lead metric **before** any consideration of the program of investment and/or individual projects. Setting the lead metric first (and independently of project and program consideration) defines what is most important to the members of the partnership, without any preference or influence from individual preferences around projects.

Finally, the lead metric has been selected independently of the funding benchmark for earn-back. This is a unique characteristic of the EGPM, and reflects the funding streams available to stakeholders in the partnership; as well as the recognised importance of prioritising economic growth as a core outcome of sub-regional and local economic infrastructure investment.

Minima

In addition to the lead metric, the State and Local Government may wish to incorporate additional program minima into the prioritisation framework. In the UK, all cities to date have supplemented their lead metric with program minima – i.e. minimum outcomes that the program as a whole has to satisfy in addition to maximising GRP/ GSP.

In Queensland, any program minima will be subject to negotiation by the governance partners. Potential minima that could be considered include:

- investment across all local government authorities to ensure a degree of social equity;
- a minimum improvement in housing choice for all LGAs;
- benchmark improvements in employment and housing outcome growth in all LGAs;
- the program as a whole to meet a defined environmental baseline;

- overall investment ensuring access to jobs and therefore economic opportunity is meets a minimum level in all LGAs;
- overall investment ensuring access to jobs and therefore economic opportunity is maximised for the most disadvantaged; and/or
- other State and Local Government priorities.

In considering program minima for inclusion, it should be recognised that each additional minimum significantly increases the complexity of the prioritisation process. Accordingly, experience in the United Kingdom has shown that limiting the number of program minima to a small number will ensure that the right minima are reflected while still delivering a program that is focussed on optimising the lead metric.

Priority Program

The program of investment needs to outline the region's prioritised approach to unlocking new development opportunities across the South East Queensland region. In this respect, the program has the capacity to act as an implementation mechanism for the SEQ Regional Plan. While the Plan outlines an urban footprint for the region, the Economic Growth Partnership provides a platform for regional stakeholders to agree to a program that will ensure that development progresses in a fashion that optimises economic growth within a sound spatial framework.

This optimisation will be achieved by ranking each project based upon its contribution to GVA/ GRP. In order to maximise the independence of the final program, the United Kingdom has agreed to the prioritisation process being facilitated by an agreed independent entity. Under this approach, government stakeholders would agree to the metrics at the outset, nominate projects for inclusion, and then drawing on the expertise of an independent third party to undertake the prioritisation process.

The modelling required to progress this process of prioritisation will need to be bespoke to the scope of infrastructure being considered and the spatial/ economic interface in SEQ. This will require local agreement on an appropriate modelling suite and an appropriate base-case projection for the regional economy. The modelling suite, which may include an interaction of LUTI and CGE modelling, would then be applied to forecast the net impact (compared to the base case) of each project.[5] This benefit would then be combined with estimates of net cost to produce a GVA/ net cost forecast.

A range of local funding scenarios would then be tested to see if the package of projects that the prioritisation gives for each level of funding meets the program minima. If not, the project list is adjusted so that the minima are delivered for that level of funding (or close to it) with the minimum hit on the lead metric. Some whole program tests are also run to ensure no important interdependences have been missed.

This process would result in a number of "compliant scenarios" at different local funding levels – each of which maximises the forecast impact on net GVA for a given level of expenditure whilst also hitting the program minima.

Experience in the UK has shown that the broader the list of projects, the better the program outcome. Accordingly, nominations for projects to be included in the program should be welcomed from State and Local Government, as well as the private sector.

[5] Experience in the UK has predominantly focussed on the interpretation of LUTI modelling outputs to provide a basis for prioritisation. The lack of a suitable CGE model in some cities has been acknowledged as a weakness of the prioritisation process and could be resolved through the inclusion of this modelling technique in the EGPM.

5.5. Funding Parameters

A new approach to funding is core to the EGPM. The model adopts an approach whereby project by project funding decisions are shifted towards an agreed funding envelope for infrastructure program investment. Furthermore, the current approach of one- off funding for a sub-regional or local infrastructure asset has been changed to allow the taxation benefits of the initial infrastructure investment to be reinvested on a rolling basis in future infrastructure development.

This rolling infrastructure investment mechanism has been captured as a partnership funding pool and termed a 'Growth Infrastructure Fund' (GIF). It is a consolidated funding pool into which all funding for sub-regional and local economic infrastructure is contributed prior to prioritisation. The GIF effectively provides the project funding envelope available for infrastructure investment and determines how far down the prioritised list of infrastructure investment can extend.

All three stakeholder groups (state government, local government and the private sector) have a role to play in contributing toward infrastructure provision. While these contributions have been termed as 'self-help' under the UK approach, this terminology is not deemed appropriate for the Queensland context given that Local Government is the predominant funder of sub-regional and local economic infrastructure already (Central Government plays this role in the UK). Funding contribution from the State Government could be sourced in the form of an upfront guarantee against which GIF borrowings can be leveraged.

In the Qld context, the allocation of funding would pivot on three factors:

- The scope of infrastructure to be funded under the model of the scale to trigger State involvement under the current policy settings. For example, local trunk infrastructure - versus a rail link or busway that might be more regional in its nature.
- Whether there is a policy position at a government level that it would like to 'prime' the development market by contributing 'seed' funding to contribute to the EGPM.
- The nature and level of commitment negotiated between local and state government parties to get further traction on EGPM development and implementation?

A 'Payment by Results' mechanism is also proposed for the EGPM. This is based on the principle of earn-back in the United Kingdom and would see a share of additional taxation generated by infrastructure investment being reinvested in the GIF.

Individual contributions to the GIF are summarised in greater detail below.

Local Government

Under the terms of an EGPM all local governments across the SEQ region would collectively contribute toward a funding pool for infrastructure investment (GIF). In the UK, contributions have been agreed on the basis of a per capita funding arrangement that is fixed across all local governments. This is similar to the funding approach currently taken applied for contributions to the Council of Mayors (SEQ) and is not unfamiliar to local government. Funding contribution on the basis of the number of rateable properties is an alternative measure for allocating funding requirement, with the final terms requiring agreement by all parties.

Any agreement on funding contributions would not seek to nominate the revenue streams against which these contributions would be balanced (i.e. rates, consolidated revenue, levies etc.). This is the jurisdiction of the individual Councils and should be taken into account by each Council when negotiating funding contributions levels.

Outside of the GIF, a local government may also wish to individually contribute funding to an individual project/ package of projects in partnership with the private sector, or independently of any external contributions. This additional funding would be considered as a benefit to the project when the program list is developed and projects are prioritised on the basis of economic return over initial GIF contributions.

State Government

The State Government currently does not play a significant funding role in the delivery of sub-regional or local trunk infrastructure with the exception of some road and transport networks. Contributions are made through grant programs (i.e. Royalties for the Regions) however capital contributions are typically limited to projects of state or regional significance.

Under the EGPM, the partnership stakeholders could seek to leverage the security associated with State backed borrowing to grow the pool of funding under the GIF. This would potentially involve the State Government providing a guarantee for borrowings undertaken to initially grow the GIF, or providing an allocated fund against which borrowings could be made. This would enable the partnership stakeholders to access debt funding for infrastructure at a lower rate of finance than they would otherwise be able to access.

Depending upon the final scope of the infrastructure agreed for inclusion in the model, the State may also wish to directly inject funding into the GIF on a one-off, or on a recurring basis. The scale and scope of any funding contribution would be subject to both internal approval and negotiation with the broader stakeholders of the Partnership. This is commensurate with the internal and external negotiation processes and approvals that would be required of local government stakeholders of the Partnership. Determination of the reallocation of existing funding streams to local government or state government infrastructure with state government significance would be a further consideration in the model design.

Development Sector

The development sector is currently a key contributor to the development of sub-regional and local enabling economic infrastructure through the payment of infrastructure contributions or the construction and transfer of infrastructure assets. While not a formal member of the EGPM, the sector will have an integral role to play in continuing to provide contributions associated with new development under the State Planning Regulatory Provision (Adopted Charges) 2012 and any subsequent reforms.

This contribution will be accounted for in estimating the remaining funding share required to be contributed by the GIF for any package of infrastructure investment. As with Local and State Government contributions, any additional funding contributions toward the construction of infrastructure will be accounted for as a reduction in GIF funding requirement and will be reflected in prioritisation.

Payment by Results

Payment by results is equivalent to the earn-back deals currently being negotiated across multiple jurisdictions in the UK. The mechanism acts as an incentive for local government investment in infrastructure through the Central Government offering to reinvest a share of the tax receipts generated by new economic activity back into a rolling investment fund. Under the EGPM, there is a less direct link between the lead metric (GRP) and the revenue benefit to the State Government. ***Growth in GRP*** is loosely linked to a growth in payroll tax at the State level, however is more closely aligned to revenue at the Commonwealth level (income taxation, Goods and Services Taxation (GST), business taxation etc.). Given that a share of GST revenue is redistributed to Queensland, it is possible that a payment by results mechanism could be developed on the basis of modelled uplift in GST resulting from the development outcomes enabled through the infrastructure investment. This mechanism would be complex to calculate however and may be politically challenging. Nevertheless it has merit for consideration as part the wider infrastructure debate in Queensland.

Alternatively, a benchmark more directly aligned to revenue growth for both State and Local Government would be ***land value uplift***. There is an alignment between infrastructure investment and land value uplift. . By increasing the capacity of a site/ locality to support development, there is typically a direct market valuation increase to reflect the development potential of the site. This will result in a direct uplift in the rates a local government would charge on the site, as well as uplift in State Government land taxation. Upon the sale of the developed site, State Government will also benefit directly from uplift in stamp duty revenue. This mechanism would be relatively simple to calculate.

Two separate approaches to payment by results are proposed for the purposes of this scoping paper, with further examination required to assess a preferred option for the EGPM.

Payment by Results Option 1: GRP Benchmark

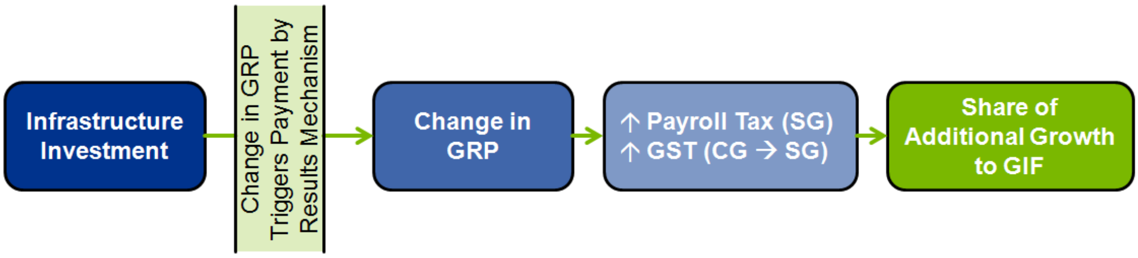
The first option would involve the assessment of payment by results on the basis of the achievement of the GRP uplift exceeding forecasts under the base case of no EGPM.

As has been the case in the UK, a delay of five years would be applied to allow the benefits of development to flow through the economy. Should the region outperform the baseline forecast on the basis of the infrastructure facilitated under the EGPM, a payment by results measure would be triggered.

The payment by results value would be subject to negotiations between Local Government and State Government. The experience in the UK with similar negotiations has resulted in approximately 60% of the additional uplift being recognised as additive (i.e. a result of improved productivity) as opposed to being driven through displacement (i.e. jobs moving from one location nationally to another). Half of this benefit has been captured in an earn-back arrangement, capped at 40% of Local Government contribution to infrastructure investment.

In the Australian context, all of these variables would require detailed negotiation and confirmation. The modelling of change in GRP and subsequent incremental taxation uplift will form a central component of this negotiation process, and will be critical to the finalisation of any payment by results mechanism. A simplified flow diagram outlining the mechanism is outlined below.

Figure 8: Payment by Results – Option 1: GRP Benchmark



Source: KPMG

Payment by Results Option 2 – Land Value Benchmark

The second option would also involve the assessment of payment by results on the basis of the achievement of the GRP uplift exceeding forecasts under the base case of no EGPM.

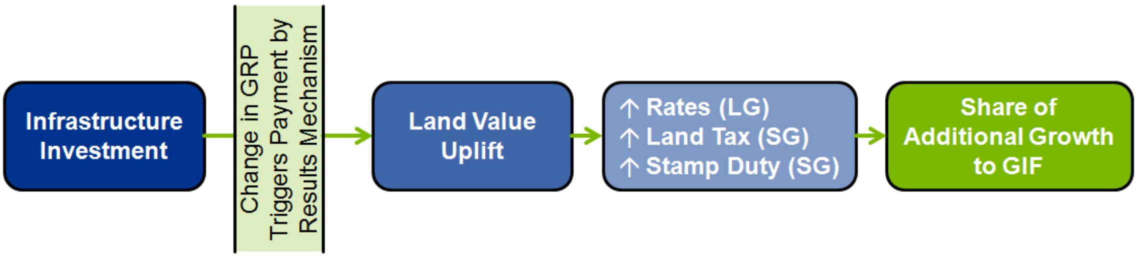
A delay of five years would also be applied to allow the benefits of development to flow through the economy, with the payment by results mechanism being triggered on the basis of economic performance.

Where Option 2 would differ from Option 1, however, would be in the calculation of the revenue streams that could be incrementally drawn upon to fund the payment. Under Option 2, the scope of revenue streams would be limited to Local Government rate revenue uplift, as well as State Government land tax and stamp duty revenue uplift.

The share of revenue uplift that could be uniquely attributed to the optimisation undertaken as a component of the EGPM would need to be modelled. This would then inform negotiations around the share of this revenue uplift that could be 'in-play' for contribution back to the GIF. Furthermore, the link between the economic growth 'result' and the land value 'payment' would need to be articulated. For example, if the region exceeded economic growth projections as a result of infrastructure investment by 1%, would this deliver a different share of revenue payments back into the GIF than if growth exceeded benchmarks by 1.5%? As with Option 1, all variables associated with the mechanism would need to be agreed by the stakeholders in the partnership.

The diagram below provides a simplified flow diagram of funding under the mechanism.

Figure 9: Payment by Results – Option 2: Land Value Benchmark



Source: KPMG

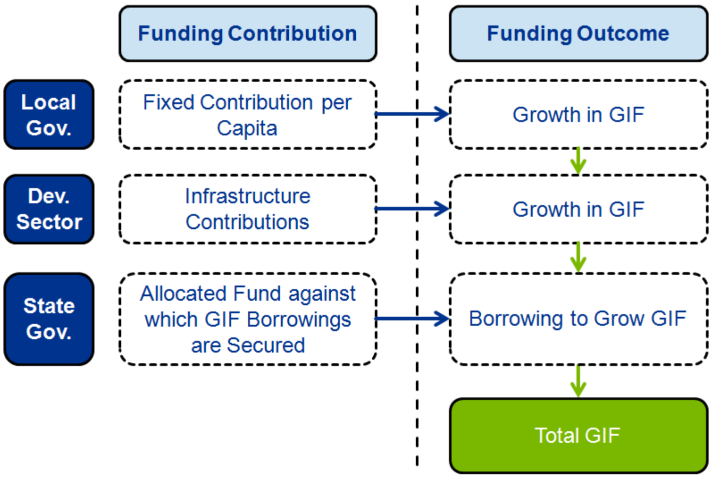
Summary

The funding pillar of the EGPM provides the foundation for funding contributions and flows. The core catalysts for additional funding and ultimately, payment by results under the Partnership are summarised below:

- The prioritisation of investment to deliver real economic outcomes and maximise the benefits of infrastructure investment to incentivise both State and Local Government support;
- The provision of an allocated fund and/ or guarantee by the State Government against which GIF borrowings can be leveraged to grow the initial investment in infrastructure funding; and
- The payment by results back into the GIF to create a rolling fund for infrastructure investment.

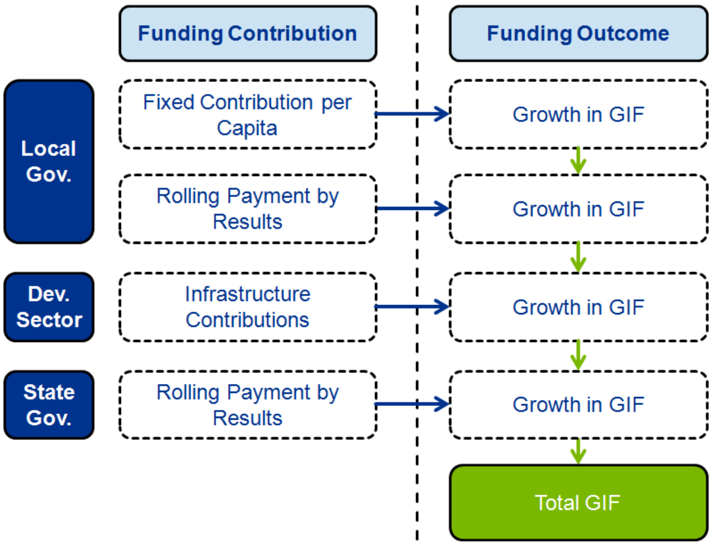
The funding contributions to the GIF both initially and on an ongoing basis are summarised in the diagrams below and overleaf.

Figure 10: Initial Funding Contribution by Local Government, State Government and the Development Sector to the GIF



Source: KPMG

Figure 11: Ongoing Funding Contribution by Local Government, State Government and the Development Sector to the GIF



Source: KPMG

The scope and scale of contributions (both financial and non-financial) toward the GIF is a subject for negotiation between the stakeholders involved in the partnership. This model does not seek to comment on the longer term role of infrastructure charges; however any policy changes or movements in projected contributions would need to be accounted for in the agreement between stakeholders.

5.6. Governance

Governance arrangements for the EGPM are core to ensuring that the partnership is both equitable in the distribution of development outcomes and economic growth as well as readily implementable.

As per the scope of the partnership, State and Local Government will need to work together to negotiate the terms of the EGPM and commit to an agreement that will enable its delivery. The complexity in this negotiation process, however, increases exponentially with the number of stakeholders involved. In the case of the proposed South East Queensland region, there are eleven local governments with a vested interest in a new, sustainable approach to infrastructure funding and economic growth. Accordingly, agreeing to a suitable governance structure approach that can represent the views of these stakeholders will be critical.

In the United Kingdom, Central Government legislative reform has driven the creation of new statutory entities to collectively represent a regional grouping of local governments. These Combined Authorities have been empowered to represent local governments (through appropriate representative governance) and make binding financial decisions around infrastructure prioritisation and funding. The appropriateness of such an approach in a Queensland context is a long term consideration, and would need to be pursued in the context of broader local government reform should such a policy be in the interests of appropriate stakeholders. For the purpose of the current Economic Growth Partnership however, it is proposed that the existing ***Council of Mayors (SEQ) play a leadership role*** in collating and representing the views of their membership to negotiate key terms. This is commensurate with the initial approach in Manchester, whereby the Association of Greater Manchester Authorities (a voluntary advocacy organisation for Manchester Local Authorities similar to CoMSEQ) negotiated the terms of the Greater Manchester City Deal.

While it is recognised that CoMSEQ does not currently represent the Gold Coast City Council, the Council is a growth front for the region and a key contributor to the regional economy. Accordingly, appropriate terms would need to be reached such that CoMSEQ could engage with and provide the opportunity for Gold Coast to participate in a regional partnership with the State Government around infrastructure prioritisation and funding.

Effective engagement and collaboration between local governments across the region and between Local and State Government is critical to:

- outline the purpose of the EGPM and articulate its benefits for both local communities and the broader state in terms of better growth planning, prioritisation and funding, and ultimately driving a regional and state uplift in economic growth and associated tax revenue;
- ensure there is a detailed understanding of the model and its component parts at a high level but also with those key analysts who would likely be tasked with undertaking the detailed development of the model (potentially Queensland Treasury and Trade (QTT) and DSDIP); and
- undertake a process of detailed workshops and question and answer sessions to best facilitate the above in a timely and effective manner.

This engagement could be couched in terms of existing issues around infrastructure funding shortfalls and strengthening the focus of growth front planning around economic benefit realisation. As engagement progresses, so too will the granularity of discussion around key parameters of a potential partnership.

Key State Government Agencies and Local Government entities that will be critical to this process are outlined in the table below.

Table 10: Key Governance Stakeholders

State Government Stakeholders	Local Government Stakeholders
• Department of Local Government, Community Recovery and Resilience; • Department of the Premier and Cabinet; • Department of State Development, Infrastructure and Planning; and • Queensland Treasury and Trade • Line agencies and utility entities with an interest in trunk infrastructure at the sub regional and local levels (e.g. Department of Transport and Main Roads, Department of Energy and Water Supply)	• Council of Mayors (SEQ); • Brisbane City Council; • Gold Coast City Council; • Ipswich City Council; • Lockyer Valley Regional Council; • Logan City Council; • Moreton Bay Regional Council; • Redland City Council; • Scenic Rim Regional Council; • Somerset Regional Council; • Sunshine Coast Regional Council*; and • Toowoomba Regional Council. • SEQ Distributer Retailers • Local Government Association of Queensland

**The de-amalgamation of Sunshine Coast Regional Council on January 1st, 2014 will require the consideration of inclusion of the new Noosa Council in any regional planning and infrastructure funding mechanism.*

Source: KPMG

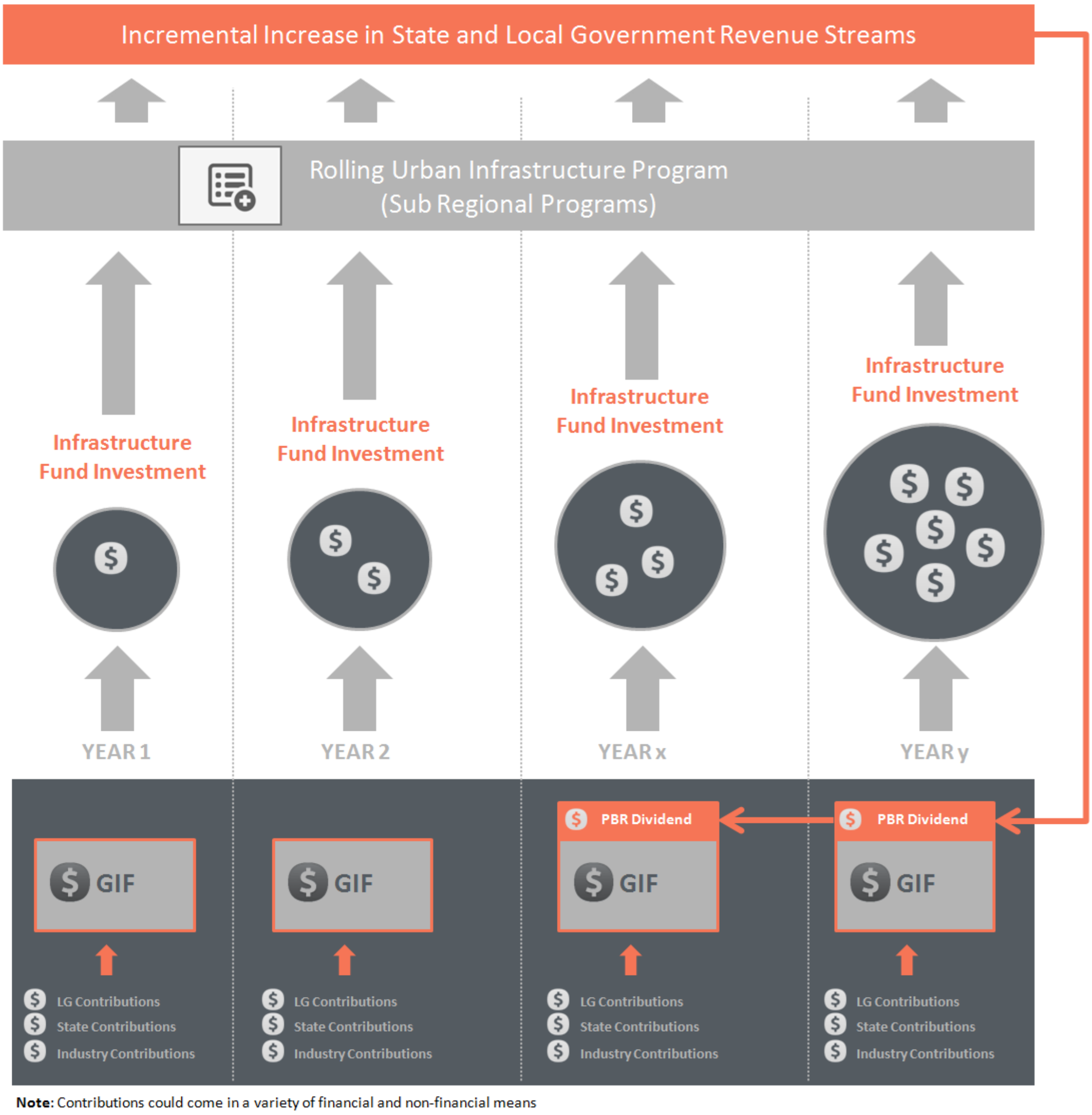
Any new approach to governance will require suitable resourcing. The contribution of resources from each stakeholder will need to be agreed as a component of negotiation around the progression of the model. This has been further detailed in Chapter 6 – Next Steps.

5.7. Mechanics of the EGPM

The diagram below has been prepared to outline an indicative representation of the flow of the EGPM, once core elements of each pillar have been agreed. It surmises that in each year, local government, the state government and the private sector will contribute both financial and non-financial resources towards a pooled growth fund (GIF); which will in turn be utilised to progress an agreed program of sub-regional enabling infrastructure. This infrastructure investment will generate incremental increases in both local and state revenue streams, which will be partially reinvested back into the GIF through a payment by results (PBR) scheme, should the infrastructure investment deliver agreed economic (GVA) growth benchmarks.

Should the infrastructure investment yield real economic growth dividends as expected, the reinvested funding from growing revenue streams will grow the size of the GIF, and decrease traditional year-to-year funding contributions from stakeholders sourced from consolidated revenue. Accordingly, the model seeks to maximise economic growth outcomes and address current ongoing challenges around sub-regional infrastructure funding constraints.

Figure 12: Indicative Flow Diagram of the EGPM



Source: Council of Mayors (SEQ) & KPMG

5.8. The Benefits of an 'Economic Growth Partnership'

The proposed parameters for an EGPM have been proposed to resolve the core challenge of ongoing infrastructure funding while maximising the benefits to the State Government, Local Government and the development sector. The benefits to each stakeholder are succinctly summarised below.

State Government

The core benefits of the model to the State Government include:

- Net growth in economic activity and productivity;
- Net growth in employment;
- Net increase in State-level tax receipts;
- Improved regional plan delivery; and
- Improved inter-governmental relations.

Local Government

The core benefits of the model to the State Government include:

- Net increases in jobs and economic growth;
- Access to an ongoing funding stream that will assist in bolstering Local Government financial sustainability;
- A more certain pipeline of sub-regional and local enabling economic infrastructure;
- Improved local planning scheme delivery and
- A new avenue to broker infrastructure partnerships with the State Government.

Development Sector

The core benefits of the model to the State Government include:

- Improved certainty of infrastructure development and staging contributing to more efficient approval processes; and
- Improved development feasibility associated with improved certainty.

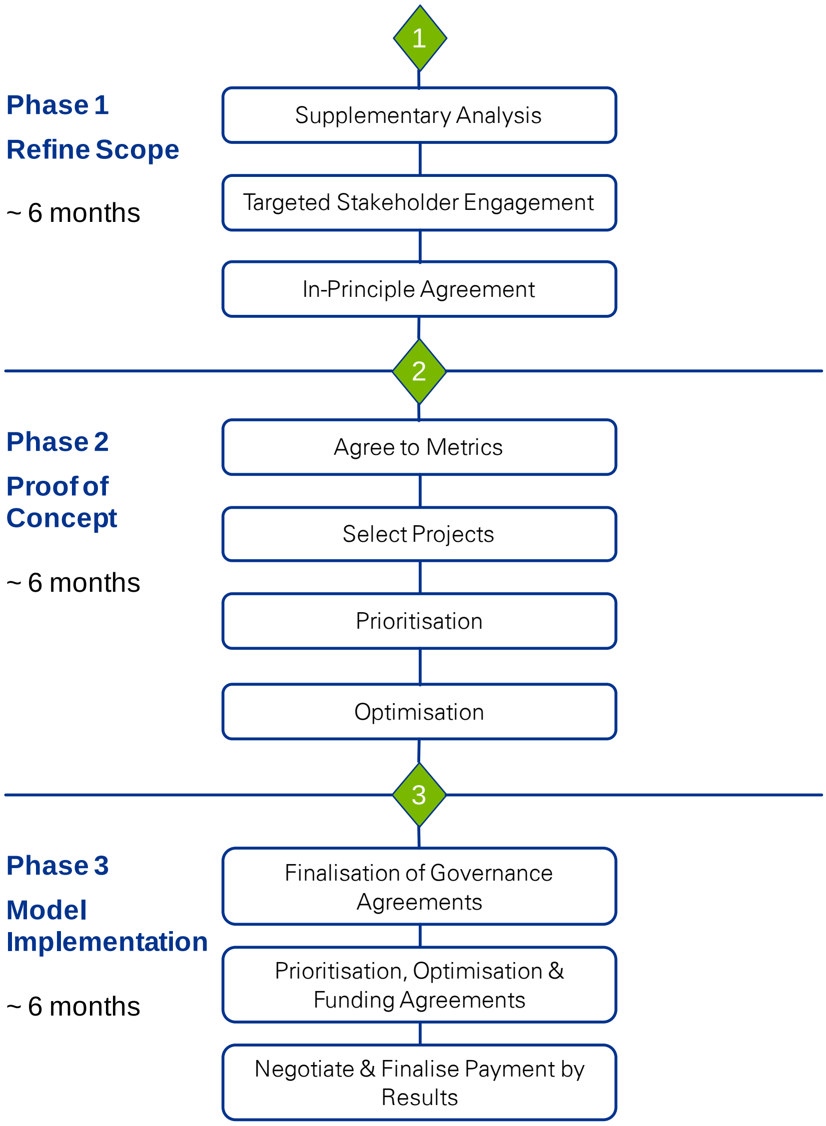
These benefits are key drivers for the progression of the current scoping paper and will form the benchmarks against which the success the EGPM can be assessed.

6. Next Steps

This scoping study has presented a preliminary assessment of the potential parameters for an EGPM in Queensland that draws on the lessons of the UK City Deals Model. While these parameters provide an initial basis for socialisation of the concept, further analysis will be required to test the rigour of the approach; the extent of the payment by results incentive; and a potential range for key funding parameters that would need to be refined through negotiation between stakeholders in the partnership. This analysis is beyond the scope of the current engagement. Nevertheless, a broad outline of next steps for the model has been summarised in the diagram below.

The proposed approach to implementation has been divided into three phases, preceded by a gateway 'go/ no-go' decision point for stakeholders (green diamonds). Each of these phases and decision points are discussed in further detail overleaf. The indicative timeframes have been provided as a guide only, and reflect an assumption of clear commitment and alignment between stakeholder objectives and fit for purpose resource model to progress model design.

Figure 13: High Level Implementation Approach for a SEQ EGPM Pilot



Source: KPMG

Gate 1

The first decision point to proceed will need to be collectively agreed by the steering committee for the current scoping study. A decision to proceed at this juncture would indicate that the steering committee is satisfied that there is merit in the preliminary model proposed, and that they are willing to seek the agreement of their respective senior leadership representatives for further analysis to refine the scope of the approach.

6.1. Phase One – Refine Scope

The first phase involves the preparation of supplementary analysis to complement the findings of the current scoping study and then socialising key findings of the analysis with State and Local Government stakeholders and relevant peak industry bodies (e.g. PCA, UDIA, etc). This process of socialisation and education would provide a forum for key stakeholders to determine their willingness to engage with and drive the reforms required to progress a refined version of the proposed model.

A broad timeframe of six months has been estimated to progress this phase. This may proceed in a faster or slower timeframe depending on stakeholder feedback and engagement and the resource commitment provided to execute technical work on model development.

1 Supplementary Analysis

A series of analysis tasks will be required to provide a more detailed evidence base against which the merit of the proposed EGPM can be tested. These tasks will include:

- Estimation of the historical levels of local government investment in sub-regional and local trunk enabling economic infrastructure in South East Queensland;
- Analysis of the historical tax flows to Local and State Government associated with investment in the infrastructure scope proposed under the EGPM;
- Review of the baseline modelling undertaken by QTT to forecast GRP, employment and land valuations.
- Review of available tools to estimate impacts associated with infrastructure development (i.e. Land Use Transport Interaction (LUTI) modelling, Computer-Generated Equilibrium (CGE) Modelling etc.)

Once this analysis has been completed, it is proposed that a case study be developed to test the feasibility of the funding pillar of the model. This case study would assume that a package of infrastructure that aligns with the ‘boundaries’ pillar had been prioritised under the ‘prioritisation’ pillar and had since been developed. Historical information associated with the development, including cost of infrastructure investment; evidence of land valuation uplift; modelling of resultant GRP impact; and modelling of taxation impact would be utilised to estimate the threshold points for payment by results and the potential relative feasibility of the proposed funding approach under the EGPM.

2 Targeted Stakeholder Engagement

A program of targeted engagement between all stakeholders will be critical to the timely progression of the EGP. At this juncture however, the focus will be on providing a forum for Local Government, State Government and appropriate industry representation bodies (Local

Government Association of Queensland, PCA, Urban Development Institute of Australia etc.) to engage with the proposed model and seek to refine the parameters as appropriate to ensure it delivers the optimal outcomes for the regional and state economy. These discussions will be grounded in the evidence generated through the supplementary analysis, as well as any refinements to the scoping paper.

Initial engagement could utilise a series of meetings and workshop style discussions with key stakeholders before broadening the scope of involvement based upon the comfort of these stakeholders with the proposed parameters.

3 *In Principle Agreement*

Once all stakeholders are satisfied with the proposed parameters of the EGPM, an in-principle agreement would be sought between the State Government and participating Local Governments across the region and publicly announced. Terms of negotiation and representation would be agreed to, enabling the partners in the approach to progress to determining the detail of the prioritisation and funding elements that would define the final scope. This agreement could take the form of a Memorandum of Understanding and would need to be supported by an appropriate governance and project resourcing structure.

2 *Gate 2*

Step three represents an effective decision point for Local and State Government stakeholders in the proposed EGPM. A commitment to a Memorandum of Understanding to facilitate the progression of the model is a key gate. Once signed, stakeholders would progress to testing the proof of the concept in Phase Two.

6.2. Phase Two – Proof of Concept

The second phase of implementation will seek to work through a proof of concept with all stakeholders. This will involve the agreement to metrics, development of the prioritisation tool and optimisation of a draft set of project proposals. The outcome of this stage will be that all stakeholders are ready to proceed to the full implementation of the model, satisfied that it meets expectations around funding and planning outcomes.

A broad timeframe of six months has been estimated to progress this phase. This may proceed in a faster or slower timeframe depending on the maturity of project proposals that are readily able to be incorporated into the prioritisation framework, as well as the complexity of the modelling required. Six months though could be ambitious depending on the approval cycles required and the depth of resourcing needed to support the EGPM in situ.

4 *Agree to Metrics*

Partnership stakeholders would agree to both the lead metric and program minima for the prioritisation approach. These will need to be finalised prior to the progression to the next stage of the implementation of the EGPM.

5 *Select Projects*

Members of the partnership will provide nominations for project proposals for assessment under the infrastructure prioritisation framework. It is expected that a minimum of ten projects will be nominated at this stage to provide a sufficient program scope for prioritisation. In the UK, this stage has been facilitated by a specialist team internal to the Combined Authority that would engage with infrastructure proponents to ensure that project proposals meet the necessary minimum criteria for assessment and prioritisation. A similar approach would be proposed for the EGPM, with Partnership stakeholders needing to determine the optimal resourcing approach.

6 *Prioritisation*

The Partnership will need to develop a tool that draws on existing and new modelling approaches to develop a modelling framework for program prioritisation. Work can commence on the modelling framework once metrics have been agreed.

An acknowledged strength of the UK approach has been the outsourcing of the prioritisation framework implementation to an independent third party. This is similarly proposed for the EGPM to ensure that decisions around project prioritisation are independently established in line with agreed metrics.

7 *Optimisation*

The prioritised list will be presented back to the partnership for review, enabling negotiation around the level of funding required for contribution into the GIF over a ten year horizon. This juncture will also enable project proponents to review their funding arrangements to determine if alternative arrangements could better deliver the same outcomes while requiring lower contribution from the GIF. This will result in one final re-run of the prioritisation tool, before the Partnership will need to agree to the scale of their required contribution to the GIF.

3 *Gate 3*

Phase two will have provided stakeholders with sufficient evidence to determine their satisfaction with the prioritisation approach, methodology and funding implications of a draft program of sub-regional and local infrastructure investment. At this juncture, stakeholders will now need to determine whether or not to broaden the scope of the project proposals and proceed to the full implementation of the model.

6.3. Phase Three – Model Implementation

The third phase of implementation involves the effective roll-out of the model. Governance agreements to facilitate infrastructure prioritisation, investment and delivery will need to be finalised, as will associated financial and resourcing arrangements. The proof of concept approach will need to be re-run on a broader range of projects, incorporating all nominations from Government and the private sector for infrastructure development. This stage will also require the negotiation and finalisation of a payment by results mechanism between the Local and State Governments to support the ongoing investment of additional revenue generated by infrastructure investment back into the GIF.

A broad timeframe of six months has been estimated to progress this phase. This may proceed in a faster or slower timeframe depending upon the buy-in to the model at this stage of implementation as well as the extent of negotiations required to reach an appropriate payment by results agreement.

Legislative amendments may be required to support final governance arrangements. Given the breadth of the current whole of government reform program, this factor could present a risk to the indicative 9 month timeframe nominated.

8 *Finalisation of Governance Agreements*

Governance arrangements for the implementation and ongoing operation of the model will be finalised. This will involve the signing of contracts by all entities to commit to agreed funding and infrastructure delivery elements of the partnership. Similar agreements in the UK have been finalised on the basis that an earn-back (payment by results) arrangement will be finalised with the Central Government. This approach is similarly proposed for the EGPM.

9 *Prioritisation, Optimisation and Funding Agreement*

Steps four through seven under Phase Two will be repeated and confirmed for the delivery of the model. This will include the invitation of broader nominations for infrastructure investment from the private sector and stakeholders outside of the EGPM. Members of the Partnership will need to agree to the final metrics for prioritisation as well as the scale of funding willing to be committed by each stakeholder to the GIF. This will include revision of the short and longer term funding streams that will be included or excluded from the fund. This will determine the extent of the final prioritised infrastructure list that will be progressed over a ten year time frame.

An outcome monitoring and reporting framework will also be required to underpin the evaluation and performance monitoring dimensions of the new scheme.

10 *Negotiate and Finalise Payment by Results*

Negotiation of the terms of the payment by result mechanism will represent the final task of the establishment of the EGPM and signal the commencement of operation of the new approach.

Appendix 1

Alternatives to Traditional Funding and Financing

In considering an EGPM for SEQ, a number of alternative models of infrastructure financing were explored. The fundamental details of alternative models of infrastructure funding and finance are outlined below.

Traditional Funding

It is important to understand the difference between funding and finance. As mentioned above, Local Government traditionally has three main sources of funding including:

- Rates
- Sales of Goods & Services e.g. development contributions; parking; permits
- Government Grants

These traditional sources of funding can be used to directly fund infrastructure or can be leveraged to support the financing of infrastructure for example through borrowings. Funding must be available to support finance.

Ideally the source of funding for infrastructure investment would strike a balance between those who benefit from the new infrastructure and the broader ratepayer and taxpayer base that may not use it.

With respect to financing of infrastructure delivery, the primary objectives are to secure the upfront cost of the new infrastructure when it is required, while also ensuring the cost over the life of that finance contribution is efficient and does not impose greater pressure on the funding sources.

The UK City Deals, while different in each city or region, combines the ability to secure new funding sources with new powers to raise finance through the most efficient means possible be it either the public or private sectors.

We look below at the alternative funding and financing methods used nationally and internationally.

Alternative Funding and Finance

Analysis has been conducted to provide an overview of five alternative funding and financing options. The analysis of each funding option has been a desktop exercise, with expertise being drawn from internal research tools, benchmarking resources. The following aspects have been considered for each:

- **Overview** – a summary of the option and conceptually how it operates
- **Implementation Considerations** – issues faced in structuring these methods
- **Benefits** – social, economic or financial
- **Risks and Barriers** – those that would be faced prior to, during or after implementation

Alternative Funding Mechanism 1: Specific Purpose Securitised Borrowing

Overview	Specific Purpose Securitised Borrowing refers to the issuance of debt instruments such as bonds, debentures and inscribed stocks in the capital market to finance a specific project. This method of finance was traditionally funded from income generated from the project if it was an economic project, or through government grants or general revenues if it was a social project.
Implementation Considerations	General purpose bonds are regularly issued by Central Banking Authorities including by the Queensland Treasury Corporation. However the purpose and the beneficiary for the bond issuance are not known to the market. The most significant implementation issues for specific purpose borrowing is the need for the market to fully understand the nature of the infrastructure being financed and how it is to be funded. This is particularly so if it is to be funded by income from the project. This can increase the transactions costs to all parties.
Benefits	There are a number of benefits to this method particularly where it is used to finance economic infrastructure that is funded from project revenues. This directly links user-based funding with the investment and brings market discipline to the investment typically encouraging greater efficiency in financing.
Risks & Barriers	This method of financing was used extensively in Australia up until the mid-1970s. We understand that it was this extensive use and competition for finance in a relatively small Australian financial market that led to inefficient costs of finance. Central banking Authorities such as the Queensland Treasury Corporation was established through which local government can obtain finance as rates below private market rates. The case for returning to specific purpose borrowing would need to be compelling.

Alternative Funding Mechanism 2: Certificates of Participation

Overview	This is a type of financing where an investor purchases a Certificate or share of future revenues rather than a bond secured by those revenues. Typically the infrastructure required by local government would be assigned to a trustee or non-profit organisation to construct. The trustee in turns leases this facility back to the local government. The Certificate holders receive a return based on the lease revenues.
Implementation Considerations	COP arrangements are typically complicated involving the creation of a trust and the assignment of the lease payments to a trustee. In the trust arrangement, the lesser acts as trustor and enters into a trust agreement, with the designated lease going to designated investors as beneficiaries. The trustee is usually a trust company, which oversees the operation of the lease and represents the holders of COPs. In all, there are a minimum of four parties, the Lessee, Lessor, Trust and Multiple COP holders.
Benefits	The use of COPs in the United States arose due to the need for local authorities to achieve two-thirds of the eligible voters' approval to issue a bond debt for new infrastructure. COPs are considered a form of lease financing rather than debt and therefore do not require voter approval. This type of issue does not arise in Australia. COPs also directly links user-based funding with the investment and bring market discipline to the investment, typically encouraging greater efficiency in financing.
Risks & Barriers	The cost of COP debt is usually higher than direct borrowings or general purpose bonds. There are three major influencers of the higher costs. The transaction costs are higher due to the complexity and number of parties involved. There is an interest cost premium on COPs as they are a lease financing arrangement and are therefore not 'guaranteed' by the local authority. COPs typically require a 'debt-service reserve fund' due to their higher risk profile. As a result more funds must be borrowed than is required for the infrastructure, raising interest costs.

Alternative Funding Mechanism 3: Value Capture

Overview	Value capture has been used to describe many different funding and financing mechanisms. Simply put value capture refers to funding methods that are closely related to increases in public tax revenues from private property. The most common examples of value capture funding are improved property values resulting from infrastructure investment, rezoning or sale of government land near new infrastructure. The funding stream from the incremental growth in revenue is used to finance investment.
Implementation Considerations	Value capture relies on establishing a benchmark for all forms of capture prior to implementation. A clear nexus must also be established between the capture and the planned investments and their benefits. Typically the value capture would also be hypothecated to the specific investment or area contributing. The size of the catchment area and approach to implementation may also involve a high level of complexity in implementing and administering the regime which could offset the financial benefit.
Benefits	Value capture mechanisms generally present a recurring revenue stream, with a fixed return. The funding source comes from the main beneficiaries of the system. Generally this is more palatable than a broad based levy or charge.
Risks & Barriers	Value capture can be seen as capturing growth within a particular area, simply moving activity from one local government area to another. There must also be a clear nexus between the benefit received and the levy imposed. Typically Treasuries have been the most significant obstacle to implementing value capture mechanisms as it requires revenue to be hypothecated away from consolidated revenue.

Alternative Funding Mechanism 4: Special Purpose Levy

Overview	A levy is a special form of tax, being a compulsory payment by a particular group, to fund a related public service. It differs from general taxes, in that it is paid by a particular group, for a particular service in which that group has an interest.
Implementation Considerations	There are many considerations in establishing specific purpose levies including what is the best way of setting them up and administering them? What legal powers are required? How is the levy assessed and collected? Are there to be exemptions? Will there be market impacts or distortion?
Benefits	Specific Purpose Levies can provide a reliable and consistent source of funding that is not subject to the fluctuations of annual budget cycles. They can also be targeted to support particular sectors of the economy and typically have low collection and enforcement costs.
Risks & Barriers	Treasuries want to limit the number of specific purpose levies so as to minimise the impact on consolidate revenue. This will make it difficult to obtain support for specific legislation to allow the imposition of a levy.

Alternative Funding Mechanism 5: Growth Area Bonds

Overview	Very similar to value capture mechanisms, Growth Area Bonds or as they are also known, Tax Increment Financing are a method of financing new infrastructure based on hypothecated tax revenues derived from increases in property values within a 'prescribed growth area'. Typically bonds are issued by the Central Banking Authority to fund new infrastructure that results in property values increasing. The additional tax revenue is then used to repay the bonds.
Implementation Considerations	Enabling legislation would be required to grant the ability to designate a 'Growth Area' and to establish a Growth Area Authority to plan and administer the area, infrastructure and possibly the bonds. Support of the State government would be required for the issuing of bonds by QTC and for the increased revenues from state based taxes such as land tax and stamp duty to be hypothecated back to the Growth Area Authority.
Benefits	Experience in the US shows that the main benefits include that the increase in taxes is post-benefit to the property owner, compared to development charges which are up-front. The additional tax revenue is also on increases in property values that would not otherwise have benefitted the property owner. Like value capture it provides a direct correlation between infrastructure spend and tax.
Risks & Barriers	There are likely to be higher costs than traditional debt due to the establishment of the Growth Area Authority and the risk profile on returns that could be subject to other stronger market forces. As with other alternative financing methods, Treasury support for hypothecating tax revenues and sharing them with local government would make it difficult to obtain support for specific legislation to allow this method.

Summary

The UK approach should not be viewed as independent of the above financing mechanisms. Both Value Capture and Special Purpose Levies have been applied by local authorities to contribute to local infrastructure financing in the UK. Where the UK model goes one step further than any of these approaches, is in agreeing with another tier of government to access incremental taxation income as a contributor to rolling infrastructure finds. The mechanisms of this approach and their applicability to Queensland are discussed in further detail throughout this report.

Appendix 2: Draft Essential Infrastructure List

The table below outlines the draft essential infrastructure list identified in the DSDIP Discussion Paper released on 28 June 2013, entitled: "Discussion Paper: Infrastructure Planning and Charging Framework Review".

Network	Essential Infrastructure
Water supply	• Water treatment facilities owned by the local government (and not funded from other sources such as rates or utility charges) • Distribution systems including: - water storage facilities; - water transport systems; - pumping stations; - chlorination equipment; and - meters, valves, control and monitoring systems. • Fire fighting devices
Sewerage	• Sewage treatment plant systems owned by the local government (not funded from other sources such as rates or utility charges)☐ • Collection and transport systems: - gravity sewers; - pumping stations; - rising mains; and - emergency storage.
Stormwater	• Condition on-site treatment to a standard of non-worsening
Transport	• Local government roads (including associated intersections, roundabouts, bridges and culverts) excluding higher order local government roads such as arterial roads. • Standard items associated with the road profile including kerb and channel, lighting, signage, traffic lights, foot and cycle paths on the shoulder, basic verge revegetation • Bus stops (excluding shelters) constructed as part of the road.
Serviced land for parks and community facilities	• For serviced land for parks and community purposes either: - condition the development to provide two hectares of land per 1000 population, or - charge for an identified catchment based solution provided to a standard of not more than two hectares of land per 1000 population. • All land contributions to include works associated with making the site suitable for its intended use including earthworks, • Clearing, turfing, road frontage and connection to services including water, sewerage, power and telecommunications.

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