Funding Infrastructure in an Age of Localism

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Funding Infrastructure in an Age of Localism

Introduction

The past, it seems, was truly a different (and more centralised) country. For two decades there has been a continual rise in the percentage of local government income that emanates from the centre – with a 6% increase between 2000/01 and 2009/10 alone.[1] At the same time, a benign rate of interest from the Public Works Loan Board (PWLB) has produced a situation where three-quarters of all local authority debt is from that institution, despite the fact that the 1990s and 2000s saw a significant, if incremental, rise in the number of potential sources for capital outside Westminster.[2] There has thus been a reluctance to break with accepted modes of financing infrastructure in England (Scotland, as we will note, has been quicker on the uptake in one key instance) for reasons of economics, and of centralist culture.

The landscape is clearly shifting however, and local government income is contracting whilst its power is on the rise. Since the economic downturn local government capital receipts have dramatically reduced – from just under £4bn in 2007/8 to the approximately £1.4bn seen in both 2009/10 and 2010/11.[3] In the present parliament, capital grant will fall by over a quarter leading to more than a 4% contraction, on average, in council spending power. At the same time, though they are being given increased autonomy, this is coming at a significant, and immediate, cost to local government – with 136 authorities taking on £13.2bn worth of debt as a result of the impending end of the Housing Revenue Account (HRA).[4] Local authorities have far more to lose than their chains in the coming years therefore, and it is vitally important that the process of taking on additional powers while receiving less resource is managed effectively.

1 DCLG, *Local Government Financial Statistics* (LGFS), No. 21 (2011) and No. 15 (2005)

2 *LGFS*, 2011

3 DCLG, *Local Authority Capital Expenditure and Receipts* (2011): http://www.communities.gov.uk/publications/corporate/statistics/capital201011forecast

4 DCLG, *Implementing Self Financing for council housing* (February 2011)

The key issue going forward is how to deliver economic growth with less central investment. The 2010 Comprehensive Spending Review cut funding to numerous infrastructure projects, including seven PFI waste projects and eight major road schemes.[5] This is broadly indicative of an administration looking to clear the nation's structural deficit by the end of the present parliament. Local authorities, when seeking to fund infrastructure, will need to adapt to this climate. If national growth is to be achieved (and the OBR is forecasting 2.7% growth in 2013 and almost 3% for 2014 and 2015), newer sources of capital will need to be found.[6] Recent rates of real GDP growth have been rather limited (0.2% in the second quarter of 2011), and the nation's infrastructure is facing important challenges, particularly in areas like housing. With more than 250,000 new homes needed per year to keep up with projected population rises up to 2031, only 225,000 were built in 2009 and 2010 combined. Improvements to the railways are being part funded by the consumer (i.e. by raising prices by 8%), but there are clearly limits to consumer price elasticity (as recent trends in higher education and energy prices show).[7] Something, it appears, needs to give.[8]

If private investment is to be combined with public involvement (which makes sense for economic and political reasons) going forward, then the latter will need to bring some capital to the table. Currently, the Treasury is wary about allowing local authorities to borrow against their assets. Yet if growth is to be prioritised in the coming years then it seems likely that newer forms of borrowing will need to be found. It is perhaps no surprise therefore that the announcement that the Government intends to revise financial regulations insofar to allow local authorities to use Tax Increment Financing (TIF) powers, was almost universally applauded.[9]

In the coming years funding for infrastructure looks set to emanate from a greater range of sources With developments such as the impending local retention of business rates, the proposed introduction of new mechanisms such as TIF, and a General Power of Competence in the Localism Bill, it is an important time to consider both the recent past of local authority infrastructure financing, and the factors that may shape its future.

5 Bircham Dyson Bell, 'Infrastructure Projects saved and cut', 28 October 2010: http://www.bdb-law.co.uk/blog/178-comprehensive-spending-review-infrastructure-projects-saved-and-cut

6 http://capitalenterprise.org/capital-enterprise-review-of-the-2011-budget/

7 BBC News, 16 August 2011, http://www.bbc.co.uk/news/uk-14538167

8 BBC News, 12 November 2010, http://www.bbc.co.uk/news/uk-politics-11739466 and http://www.telegraph.co.uk/finance/economics/8331253/Number-of-new-homes-built-lowest-since-1923.html

9 *Public Finance*, 21September 2010, http://www.publicfinance.co.uk/news/2010/09/councils-tif-powers-broadly-welcomed/

Potential Instruments

A. Private Finance Initiative

The Private Finance Initiative (PFI), launched in 1992, spreads short and long term risk between private and public spheres. It rests on two premises – that the PFI process can allocate risks more effectively than conventional procurement, and that the public sector gains from these savings.[10] With the private sector assuming a lead role in financing the upfront cost of construction (or improvement) of infrastructure, the public sector then reciprocates by making payments for the use of that infrastructure over a number of years, often decades. In this way PFI has provided an increased level of capital projects for a given level of public expenditure, and, in its first ten full financial years, saw 570 deals being signed off with a total value of almost £36 billion.[11] Local authorities have made significant use of the mechanism, particularly since the economic downturn, with PFI credits (formally, a letter from central government to the local authority outlining the amount of private sector PFI investment the centre undertakes to guarantee) in England more than doubling from £1.7bn in 2006/7 to £3.7bn in 2010/11.[12]

Whilst PFI attracted criticism from a Treasury Select Committee report in August this year as regards long run value for money (and the appropriate use of detailed comparator information when reaching procurement decisions), both Conservative and Labour led governments have hitherto been satisfied that it is an appropriate and useful funding tool.[13] Indeed, despite such recent concerns, Michael Gove has recently announced a £2bn PFI scheme to rebuild over 100 schools – thereby suggesting that the scheme still has legs.[14]

Of course, PFI has had the notable political advantage of appearing off-balance sheet, and has also been able to plug funding gaps other mechanisms cannot reach. Though the Liberal Democrats sought to sound its death knell in 2009 when the government had resorted, as bank credit dried up, to self-financing the scheme, they have taken their place in a coalition which has continued with the mechanism, albeit with the proviso of ensuring 'we get maximum value for every pound we spend.'[15]

B. Asset Management

More efficient use of council owned assets is another capital raising tool. In 2004/5 Leeds City Council sold a 70 acre (underused) residential site for £62.5 million and used these receipts to regenerate

10 http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/114604.htm#a1

11 Grahame Allen, *The Private Finance Initiative*, House of Commons Library Research Paper 03/79.

12 *LGFS* (2011)

13 Daily Mail, 19 August 2011, http://www.dailymail.co.uk/news/article-2027669/Taxpayers-left-pick-Labours-PFI-folly.html

14 http://www.guardian.co.uk/education/2011/jul/19/300-schools-built-private-finance-scheme

15 Norman Baker as quoted in *Planning*, 25 March 2011

a deprived council estate in the south of the city, whilst Hertfordshire's rationalization of council property produced a more efficient workforce on half the previous number of sites between 2005 and 2008.[16] Asset management can often, it must be said, involve fairly small scale projects – but it does suggest that councils are prepared to make creative use of the financial instruments available to them.

C. Prudential Borrowing

Prior to the 2003 Local Government Act, local authorities were only able to borrow and offer credit up to levels specified by central government, which would issue credit approvals. Whilst still receiving central support for the vast majority of their programmes, from April 2004 local authorities no longer required such approval, and were free to borrow so long as they were able to service the debt themselves (for this reason borrowing from foreign currency was still prohibited as exchange rates are deemed too volatile).[17] Prior to 2004, local government capital expenditure could only be financed in one of four main ways – revenue income, capital grant, capital receipt, or borrowing with the central government's direct approval. All of these – even, given Westminster's watchful eye being kept on council tax, revenue – were, to a greater or lesser degree, subject to factors beyond local authority control.

Levels of prudential borrowing – whereby 'authorities must manage their debt responsibly, but decisions about debt repayment should be dictated solely by adherence to the Prudential Code' – have risen sharply since 2005/6. This has largely come, as the table below illustrates, at the expense of councils using their (dwindling) capital receipts, and centrally supported capital expenditure (SCE) borrowing.[18]

Already then a majority of English councils have utilised the new prudential powers – with 85% of shire counties, and over nine in ten metropolitan districts, using them in 2009/10.[19]

These figures show that demand for non-governmental capital has steadily increased since local authorities were given greater control over their borrowing. A future development may be local authorities pressing the centre for more powers in this regard – particularly given the potential of the bond market.

16 DCLG, *Examples of Good Practice in Asset Management*, http://www.communities.gov.uk/documents/localgovernment/pdf/1180374.pdf

17 The key legal precedent on floating rates of interest was Hazell vs. Hammersmith and Fulham (1991), which established that councils did not have the power to enter into interest rate swaps – said council having previously lost heavily on interest rate fluctuations.

18 SCE: the amount towards which revenue grant will be received from central government for the costs of borrowing.

19 See the LGFS (2011).

Sources of Finance for Local Government Capital Expenditure (% of total)[20]

	2005/6	2006/7	2007/8	2008/9	2009/10
Central Government Grant	23	25	34	28	34
Other (Prudential) Borrowing	13	14	16	21	23
Use of Capital Receipts	17	16	13	10	7
SCE	23	21	14	15	13
Other Grants[21]	8	8	10	10	6
Revenue Financing[22]	15	16	13	16	16

D. Bonds

There is significant global precedent for local government accessing the bond market. Major infrastructure projects have been financed by municipal bonds in Romania, Russia and Slovakia in recent years, and German regional governments issued 770 bonds between 2000 and 2007 – 82% of the European total for that period.[23] Similarly, the United States has issued municipal bonds since 1812, and Portland's Rose Garden Arena is one of many high profile bond funded constructions to have emerged in modern times.

Whilst American States are of a sufficient size to reduce the risk of default (and thereby secure bonds at an attractive rate), the same is not true of individual Swedish (or indeed the majority of British) local authorities. Founded in 1986, Sweden's *Kommuninvest* scheme aims to help municipal governments club together and collectively raise capital through the European and Japanese bond markets. By spreading the risk *Kommuninvest* has achieved a triple A rating from both Standard and Poor's and Moody's, and thereby has attracted investors from across the world. Almost one-third of currency comes from Japan, with a further 20% from the United States.[24] Sweden, like the United Kingdom, benefits in this respect from being a member of the European Union, whilst avoiding the dangers of its currency. Its brochure for potential investors places this fact centre stage – and, with recent defaults in Eurozone countries, not without reason. As

20 *LGFS* (2011)

21 Includes Private developers, non-department public grants, National Lottery and European Structural Funds.

22 As in Major Repairs Reserve, Housing Revenue Account and General Fund monies

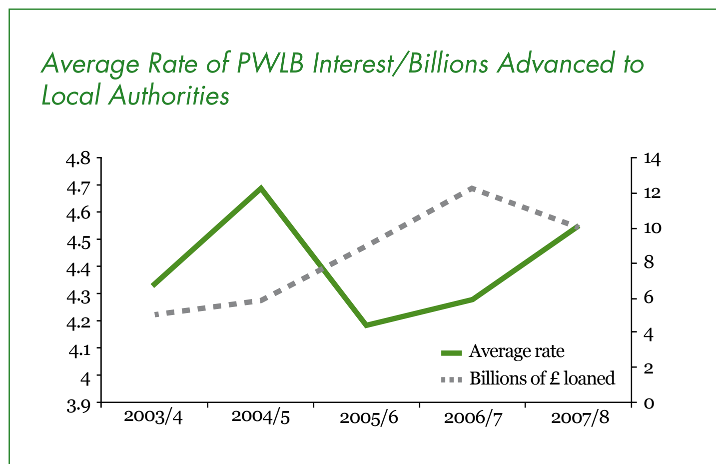
23 Daniel Platz, *Infrastructure Finance in Developing Countries – the potential of sub-sovereign bonds* (UN Department of Economic and Social Affairs Working Paper, 2009) http://www.un.org/esa/desa/papers/2009/wp76_2009.pdf

24 *Kommuninvest*, investor presentation accessed via http://www.kommuninvest.org/en-gb/investor-relations/financial-information-and-publications/kommuninvest-in-one-minute.php

a measure of its success, 262 of the 310 Swedish local authorities have joined the scheme, with lending rising by 8% even in the tough financial climate of 2010.

The British record has been less adventurous. As the following graph illustrates, there has been a clear inverse correlation between the PWLB's average lending rate, and the propensity of authorities to borrow:

Average Rate of PWLB Interest/Billions Advanced to Local Authorities



Yet it is not just the attractiveness of public borrowing that has made the British capacity for innovation lower than Sweden's. Firstly, as mentioned, until 2003 central government had to approve every attempt by local government to go to the bond market for funds. Such need for credit approval produced a situation where, between Leicester and Salford seeking finance for housing and infrastructure in 1994 and the GLA seeking funding for Crossrail in 2011, no English local authority issued a bond.

The size of the authority itself is also of paramount importance. *Kommuninvest* works precisely because local municipalities can combine into a larger unit that can therefore offer the required security to gain the prized triple A rating. Birmingham or Kent might be able issue an attractive bond, but the same it is not true for the majority of English authorities.

Size aside however, Swedish municipalities have a level of autonomy far in excess of their British equivalents. They have unlimited power to set local income taxes, and are constitutionally

unable to declare insolvency or suspend payments: the chance of them defaulting is therefore close to zero. Any investor in Swedish bonds knows their investment will return. The same could not be said of a financially more neutered British authority.

E. Mechanisms Involving Business Rates

Tax Increment Financing (TIF) is a tool that has been employed in many American cities to spark the regeneration of underdeveloped areas. Essentially allowing the local authority to borrow against the expected spike in future revenues (principally business rates) a proposed development would bring, TIF (first mooted in the 2000 Local Government Green Paper, but not included in the 2003 Act) can offer an imaginative way around financing new infrastructure. It does however necessitate the involvement of both central and local government to an extent that will need some consideration if it is to be successfully applied in the British context. Though generally instigated in a given locality, TIF relies on a willingness of the centre to provide tax relief at state and federal levels.[25] Investing in what are inherently risky projects is unlikely to prove attractive without the use of incentives, and such demand cannot be wholly triggered by the instruments available to local government.

In its final budget, the last government announced pilots of Accelerated Development Zones (ADZ) – whereby a high proportion of business rate growth would be retained by the local authority, and thereby help, borrowing the TIF model somewhat, finance the development in the first place – but left office before the plans could be implemented. To some degree their successor, albeit with a greater level of local rate retention, are the new Enterprise Zones outlined below.

F. Section 106, CIL, and the National Planning Policy Framework

Section 106 (S106) of the 1990 Town and Country Planning Act created the need for binding agreements between the local planning authority and a given developer. To be given planning permission for a project, the developer would undertake to create highways, schools, and other forms of local infrastructure necessary to make the new development acceptable. Criticisms of S106 led to the creation of the Community Infrastructure Levy (CIL) in the 2008 Planning Act. CIL aims to provide developers with greater certainty as to how much money they will have to spend (by providing a flat tariff), and, under the provision of the

25 Propertytax.com, 'Tax incentives,' http://www.propertytax.com/services_taxincentives.cfm

Localism Bill, gives communities greater say as to where the money is directed. The government has estimated that the levy has the potential to raise £1bn for additional infrastructure in the next five years.[26]

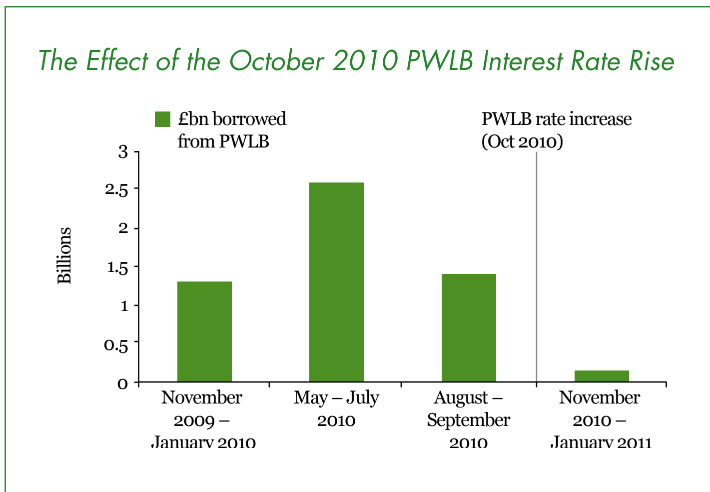
The 2011 National Planning Policy Framework (NPPF), in introducing a presumption in favour of sustainable development, is intended to increase the speed with which a planning application that meets a local plan's definition of sustainable development will secure approval, and thereby increase the receipt of CIL monies.

Towards a localist infrastructure future

In the October 2010 the Chancellor raised the PWLB interest rate by one hundred basis points (1%) over gilts, increasing the cost of borrowing by 25% at a stroke. As part of the government's belief in a private sector led recovery therefore, they have disincentivised borrowing from the state (while enhancing returns from those who continue to borrow from the PWLB), and nudged councils towards private lenders.

We know local authorities are turning away from established sources of borrowing therefore. The key will be to find the right mix of funding options going forward, and for authorities to act as intelligent consumers in picking the right funding options which balance short and long term need.

The Effect of the October 2010 PWLB Interest Rate Rise



26 DCLG, *Community Infrastructure Levy: An Overview* (May 2011), http://www.communities.gov.uk/documents/planningandbuilding/pdf/1897278.pdf

The Implications of Financial Autonomy

As part of the Coalition's localism agenda, local authorities are being given a raft of new powers. Firstly, the scrapping of the Regional Development Agencies (RDAs) mean that economic development passes closer to the locality. The creation of bottom-up Local Enterprise Partnerships (LEPs) to fill the gap left by the RDAs shifts power away from a £2bn budgeted government agency, and on to less centrally determined, public-private partnerships. The Regional Growth Fund (RGF), it must be noted, retains a measure of the RDA spirit with the aim of the LEPs bidding (or assisting Local Authorities in bidding) for a slice of the £1.4bn set aside for transport, housing market renewal, and other infrastructure investments. Mirroring the rationale behind TIF, the RGF is designed to stimulate private sector investment in areas that have in recent years relied heavily on public sector capital inflows.

Even before all of them have been approved, critics have argued that LEPs are little more than a talking shop. The recent government announcement on National Non-Domestic Rates offers a chance for their reinvigoration however. By allowing authorities to keep a greater proportion of any business rate increases, local governments (and LEPs) have been incentivised to promote growth. In some sense, the NPPF's 'presumption in favour of sustainable development' is but a logical appendage therefore. Councils will already have a desire to encourage growth, and, as the local planning authority, will presumably look sympathetically to plan for such growth, whilst judging each application on its merits.

Businesses also have the opportunity - whether directly or indirectly – to instigate and influence neighbourhood plans. Whilst this process will have to be carefully monitored in order to maintain public approval – particularly since neighbourhood plans will need to pass a local referendum - it does provide the opportunity to create a space (both literal and metaphorical) for development to flourish. The CIL, mentioned above, will presumably feed in here. Similarly, with the provision within the Localism Bill for 12 new elected mayors, urban areas of the UK may well be receiving high profile advocates for such inward investment.

At the same time, the Government is giving local authorities much greater control over their own purse strings. The number of central grants to councils is being cut from more than 100 to around a dozen, and with two exceptions (schools and public health) will no longer be ring-fenced. Councils therefore possess both the legislative freedom, and financial wherewithal, to promote growth even in times of recession.

PFI

The recent Treasury Select Committee claims that PFI can be inflexible, offer poor value for money, and merely put off a financial problem for a few decades augur a general rethinking of the mechanism, and certainly future governments will want to avoid the Committee's accusation that they have been 'addicted' to it.[27] Yet, importantly, the Committee calls for reform rather than wholesale dissolution. Of course, PFI cannot, and should not, be 'the only game in town,' but public capital involved in recent projects has tended to reflect this view anyway. Greater Manchester Waste Disposal Agency's 2009 Waste Contract involved, for example, £182m worth of capital from the European investment bank, a Treasury Loan of £120m, and £103m from the GMWDA to buttress the £124.5m in PFI credits. Such mixed approaches to capital finance may well form part of the future of infrastructure finance – and will, in all likelihood, include PFI where appropriate. Though the present Coalition is watching developments carefully, it has recently signed off an extension of Nottingham's tram network, as well as the case study below.[28]

AGMA and PFI

Lacking the funds to finance improvements to its Council housing, Salford undertook a thorough option appraisal process which began in 2003. Deciding that PFI offered the best value for money, Salford has put together a PFI bid that has successfully survived the Government's public spending review on all housing PFI projects – and was approved by Grant Shapps in July this year. The Council will put together a full business case to put to the Government for further review, with a final decision expected on the housing project (which will improve over 1,200 homes and build 30 new ones) in the next few months. As part of the deal, the PFI provider will assume the running of the housing management services for the duration of the 30 year contract.

Papers issued by the Treasury after the 2011 Budget show that some £6.9bn of new capital investment is scheduled to be delivered through deals under procurement. Such deals, for all the recent questioning of PFI, will form part of the future tapestry of local government infrastructure – and if PFI credits are to become harder to come by in future years, this will at least presumably have the benefit

27 http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/114608.htm and http://www.bbc.co.uk/news/uk-politics-14574059

28 *Planning*, 25 March and 12 July 2011

of encouraging ever more considered bids that deliver better value for money.[29] The scheme has evolved since its inception, and will continue to do so as best practice throws up new lessons.

The Future of Asset Management

Research carried out by the DCLG and LGA has shown that hundreds of millions of pounds can still potentially be saved by better asset management by those councils in a position to do so.[30] If previous attempts to rationalise took place during times of plenty, the current climate lends itself to a reconsideration of this issue.

The 2008 DCLG Local Authority Asset Management Framework illustrated how, by managing their assets more effectively, councils could deliver better outcomes for citizens and generate efficiency gains. Reforms to the biggest tranche of this – the £97 billion (2008) worth of housing stock – are underway, and it will be interesting to see how councils assuming control over their stock will impact upon their asset management.

The DCLG has also recently released a list detailing the more than £100bn annual running costs incurred on the £250bn worth of council assets.[31] Land auctions are one option being discussed to help cut this £100bn figure, particularly under the pro-development implications of the NPPF. Selling off council assets clearly has its limits, but local authorities are showing that there may be some room for manoeuvre here, particularly if they wish to address a 60% five year decline in capital receipts. Cambridgeshire, Hampshire and Worcestershire are all scoping rationalisation programmes, with the first aiming to save as much as £200m over the next decade.[32] The all party urban development group is set to make recommendations for better asset management in the coming months.[33]

The New Rationale for Local Government Bonds

Up to 20 local authorities are rumoured to be considering bond issues of more than £100m in the coming months.[34] Partly, this has emerged as a result of the rise in the PWLB rate, but there are other factors at work. More than 40 authorities will need to pay off over £100m each to buy out of the presently centralised nature of the HRA. As a result, industry experts are predicting a wave of applications. Croydon is one of several London boroughs exploring the issue, and Birmingham City Council is 'considering [its] options' as regards the £400m exit payment it will have to make from the system. As with *Kommuninvest*,

29 http://www.salford.gov.uk/why-pfi-for-pendleton.htm

30 Local Government Chronicle, 5 August 2011, http://www.lgcplus.com/finance/lga-will-take-over-public-assets-drive/5033456.article

31 Daily Telegraph, 'Councils ordered to make money from land and property or sell them off,' 24 July 2011 http://www.telegraph.co.uk/news/politics/8656789/Councils-ordered-to-make-money-from-land-and-property-or-sell-them-off.html

32 *LGC*, 28 July 2011, http://www.lgcplus.com/briefings/corporate-core/finance/smarter-asset-use-to-save-millions/5032778.article

33 Municipal Journal, 21 July 2011.

34 *LGC*, 2 June 2011, http://www.lgcplus.com/briefings/corporate-core/finance/local-authorities-gearing-up-for-bond-issue/5030492.article

councils could achieve a far more favourable rate through issuing a bond than by applying to the PWLB.

Since the bond market tends to increase in liquidity at around £150m, this also lends itself to large scale (and potentially cross authority/ LEP led) infrastructure projects.[35] The LGA has calculated that forming *Kommuninvest* type structures could even cut borrowing costs for capital projects by nearly a half, saving up to £500m over 25 years.

The Greater London Authority and the Crossrail Bond

The £600m bond to help part fund the GLA's £3.5bn share of the Crossrail project is an important step forward for infrastructure finance. The bond works out at around 0.17% cheaper than the new PWLB rate and, since the GLA has committed to achieving at least equivalent savings on future borrowings, a total of £65 million could be shaved off the cost of long-term borrowing for Crossrail. This could have the welcome prospect of shortening the term of the Business Rate Supplement – scheduled to run until 2035 – and thereby reduce grumbling amongst businesses which are currently paying (if they have a rateable levy of over £55,000) a 2p levy.[36]

London is, admittedly, a special case. Its ability to raise additional funds through levying a tax (such as the Business Rate Supplement) on a large, relatively affluent group of businesses not only provides the funds for large scale infrastructure, but gives the bond market confidence that the GLA will be able to repay any money borrowed. Not every local authority will be able to muster such confidence (or necessarily, even with the new LEPs, the financial expertise) however, and, under the Localism Bill, councils face the prospect of putting 'excessive' council tax rises to public referenda. In this light the *kommuninvest* model, as mentioned, offers food for thought as to how smaller authorities can think big.

Despite its prospective utility to English authorities however, in August this year a potential roadblock was put on the use of bonds. The General Power of Competence in the Localism Bill gives councils significantly greater financial autonomy. Yet the government has refused to clarify whether this gives councils a sufficiently robust legal position to use derivatives in relation to bond issuance. Whilst councils, including Lancashire, have argued that using a so-called 'gilt lock'

35 *LGC*, 24 Feb 2011, http://www.lgcplus.com/briefings/corporate-core/finance/councils-to-tap-bond-markets/5026081.article

36 Crossrail business rate supplement,' http://www.london.gov.uk/crossrail-brs

derivative would allow them to better manage the risk of interest rate changes if they were issuing bonds, the official Government line is that discussions on the issue have 'not produced convincing arguments one way or another.' The potential for using derivatives to 'lock-in' a rate of interest could potentially save councils millions of pounds, but the legal terrain is uncertain here.[37] Councils will presumably seek to clarify this in the coming months.

Retaining Business Rates

After much speculation, in July 2011 the government published its initial recommendations for the local retention of business rates. With authorities being allowed to keep a far higher proportion of the business rate growth they see in the years after 2013, they have both a vested interest in promoting local infrastructure and potentially the means to fund it. At the same time, the greater degree of certainty regarding future incomes (that will no longer be subject to a complex formula system) will allow them to plan more precisely for the future – particularly in regard to tax based mechanisms such as TIF and Enterprise Zones, detailed below.[38]

Business Improvement Districts (BIDs) – whereby ratepayers agree through a referendum to fund a range of services and/or infrastructure in their area – have shown how retaining money locally can lead to development. Over 130 have been established, and individual BIDs have levied £1.4m in Newcastle, and £0.5m in both Solihull and Swansea.[39] At present this is rather small scale (Newcastle put some of their money towards establishing the city's first bicycle rental scheme), but it does illustrate the potential local financial autonomy, with the involvement of the private sector, may have.

Scoping TIF

As we await clarification on any proposed English form of TIF (and how far it will concentrate on attracting investment into deprived areas, as in America), it is worth considering how it might best be implemented. The extension of the Northern Line into Battersea is a high profile example of a recent consultation that has explored the use of TIF to fund major infrastructure, and more authorities are expected to go down this route.[40] It will be interesting to see how far local authorities press for the type of tax relief policies that have sparked development in the United States – the new Enterprise Zones may feed in here, as we will note – and the new LEPs can also potentially help shape the process.

37 LGC, 18 August 2011, http://www.lgcplus.com/minister-deals-blow-to-hopes-of-access-to-derivative-markets/5033874.article. It is at present unclear what types of deratives this would/would not apply to, and which one's councils would seek.

38 http://www.communities.gov.uk/publications/localgovernment/

39 http://www.ukbids.org/BIDS/index.php

40 http://www.northernlineextension.com/media/5499/nle-extension-press-release-may-2010.pdf

The Association of Greater Manchester Councils (AGMA), which represents 10 councils across the region, is scoping the ground for a region-wide TIF programme. To Sir Howard Bernstein, Chair of AGMA's Wider Leadership Team, '[TIF] is about promoting development, but should be about promoting a growth agenda for the whole city.'[41] The mechanism 'is part of [local government's wider] toolkit,' and it would complement AGMA's emerging approach to a single source of funding for transport, housing and economic development.' AGMA also believes it offers 'the best opportunity to influence the maximum retention' of business rates.

Though English authorities have yet to implement any TIF projects, eyes also may well be turned to developments north of the border:

TIF in Scotland

The Scottish Parliament has agreed to support up to six pilot schemes to explore its utility.[42] In March 2011 North Lanarkshire was granted provisional approval by the Scottish Government to develop a major brownfield site, Ravenscraig.

As part of the TIF lodged with the Scottish Futures Trust – a Scottish Parliament quango - a new seven-mile-long dual carriageway will link the M8 and M74 motorways. The road will open up numerous business and commerce activities in North Lanarkshire, and lead to significant residential renewal. Under the TIF scheme, North Lanarkshire Council would be allowed to borrow the capital needed to complete the link. Business rates raised from the new town centre at the former site of Ravenscraig steel works will be ring-fenced and used to repay the costs. TIF funding will lever in £425 million of private sector investment in the initial six years of the project, and more than £1.2bn over its three decade duration. It is expected to create over 12,000 jobs.[43]

Enterprise Zones

In March 2011, George Osborne announced a further mechanism for stimulating inward investment: a pilot of 21, subsequently extended in August to 22, Enterprise Zones (EZs).[44] Previously instigated in the 1980s to invigorate declining areas (mostly famously London's Docklands), the present administration intends to use them, in junction with the newly created LEPs (which will select their own EZs),

41 Project Data File, 'A focus on place' http://www.projectdatafile.co.uk/article/159/a-focus-on-place resourcereview businessrates

42 Scottish Government, http://www.scotland.gov.uk/Topics/Government/Finance/18232/TIF

43 North Lanarkshire Council, 'Development boost for Ravenscraig,'

44 Treasury, 'The Plan for Growth,' 28 July 2011, http://www.hm-treasury.gov.uk/press_90_11.htm

to stimulate activity in areas of 'high growth potential.' Though the name is the same therefore, this is a potentially important evolution.

Businesses set to benefit from discounted business rates (retained within the local authority for 25 years), whilst the government is offering enhanced capital allowances and a reduction in planning regulations within the EZ. Though the experience of the 1980s was to some extent ambiguous in terms of job creation and overall cost, where EZs were well targeted (under developed areas with links – principally transport – to more prosperous regions) they have produced long term gains. LEPs will have an important role in that most crucial of decisions: where the EZ is located.

Creative Use of CIL

CIL is another prime example of how private capital may be levered in the future. The Secretary of State has the power to allow authorities to prudentially borrow against any future income from the levy, and thereby spin one development into a series of self-financing and perhaps, under the new neighbourhood plans, community led initiatives.

The greater atmosphere of inter-authority cooperation engendered by LEPs also has implications for CIL. Whilst authorities will presumably spend the majority of receipts themselves, they can also choose to pass them to other infrastructure providers in order to contribute towards the provision of infrastructure that it could not provide itself. CIL can be forwarded to the Fire Authority if a new fire station is required, or even a neighbouring authority if new infrastructure was required that benefited the collecting authority (such as roads).[45]

The New Homes Bonus

With annual house building at its lowest peacetime levels since the early 1920s, a new localist remedy is being attempted. If top down targets did not produce either the volume or type of housing required, it is hoped that growth can be encouraged from below.[46] Accordingly, almost £1bn of funding is also being put into the New Homes Bonus (NHB). Under the NHB, the government is proposing to match the council tax raised in all new homes built (and refurbishment to old homes which are brought back into stock) in the six years from April this year, and provide a further surplus for every affordable home built over the same period.[47] Discussions regarding a proportion of the NHB being used by community groups or neighbourhood planners are ongoing.

45 DCLG, *CIL: An Overview*, http://www.communities.gov.uk/documents/

46 The threefold increase in the proportion of flats being built from 1997-8 to 2009-10 did not, for example, reflect demand.

47 http://www.communities.gov.uk/housing/housingsupply/newhomesbonus/planningandbuilding/pdf/1897278.pdf

Questions Going Forward

It is tempting to suggest that innovation in this policy sphere has merely come out of necessity. Certainly local authorities are considering schemes that they might otherwise eschew were greater central grant funding likely in the next few years. Yet for all the occasional high profile failing, local authorities have already shown an effective capacity to innovate. The question is where this goes next, and how to secure the most cost effective combination of funding going forth. To this end, questions worth asking include:

- Is cross authority collaboration here to stay on infrastructure development?
- Can LEPs drive local, and thereby national, growth from the bottom up?
- Does the bond market offer a lasting way around a shortage of capital?
- Does the General Power of Competence allow for the use of derivatives?
- Where does the private sector come in?
- Is a new age for PFI dawning?
- Can TIFs/EZs be tailored to create genuinely additional growth, and what will they look like in practice?
- What should be the new dynamic between local and central government in infrastructure development?

These are complex questions, and ones which will help shape the future of local authority finance. The answers will likely vary from authority to authority. All will have to accept that the high levels of capital grant seen from central government in the late 1990s and early 2000s are unlikely to return for many years, if at all. Local government needs to work out innovative ways – or, perhaps more accurately, the best mix of differing innovative methods – to plug this gap whilst maximising its relationship with the centre. The debate continues on how best to achieve this.

What next?

This pamphlet is the starting point of a discussion on the future of local government infrastructure in an age of austerity. Localis, in partnership with Lloyds Banking Group, will be conducting research in the coming months into the questions raised by this pamphlet and the financial options available for local government. We will be publishing a definitive report on this issue in early 2012.