

After The Crunch: Local Capital Finance Options Beyond The Downturn

How will we finance major public works to 2020 and beyond? At a time when efforts to bring forward new capital infrastructure are being hampered by resourcing difficulties, the New Local Government Network research team will set out the routemap for local capital finance for the next decade and beyond. This project will explore those strategies which remain viable but, more importantly, will look for the future vehicles for investment.

The issues at stake

The combined breakdown of the wholesale capital markets and the monoline insurers over the past year has left the Private Finance Initiative dependent on a shrinking pool of bank debt as the principal funding route. This pool is now in such a diminished state that the Treasury has been forced to intervene with its own loans to PFI SPVs. However, the sustainability of “Public PFIs” is questionable, and it is likely that a new era of private finance will need to emerge with lessons learned and risks reprofiled.

Local government capital finance has been driven centrally for the past decade, but there is an appetite for greater local autonomy and a desire to ensure strong value for money, transparency and accountability in the way projects are funded and delivered. It is important not to see the best elements of PFI jettisoned, but it is also crucial to seize the moment and create a more robust array of options available for local communities.

This project intends to explore a number of critical issues and make recommendations to Government and local authorities, including

- how best can risk be transferred or managed if future projects require higher levels of public subsidy or guarantee?
- Will ‘prudential borrowing’ powers be strengthened or threatened by a decade of deficit financing?
- What new freedoms should the local government community have to pool their efforts or access capital markets for public benefit?
- Is there a need for a redesigned relationship between the service delivery frontline and the new stakeholders in capital finance, including the EIB, UKFI and the Bank of England?
- Will procurement rules, refinancing provisions and capital maturities need reconsideration following the credit crunch?
- How can momentum on tax-increment financing policy be maintained in a low growth environment?
- How can long term investment planning be enhanced in times of constrained credit conditions?
- Can we ensure that services provided by future projects are robust and sustainable and not threatened when sub-contractors go bust?



Research, Recommendations and Outcomes

Commencing in the Spring of 2009 this report will involve dialogue and consultation across the local government sector and take approximately four months to compile, aiming to launch a final report in the early autumn of 2009. The objective should be to influence the run-up to the 2009 Pre Budget Report, and it is hoped that the report will open new opportunities for policy discussion across all political parties.

In the short term the project will:

- provide a fully evidenced analysis of the state of local capital finance policy in the current spending review period
- consider ways in which the local government community can argue for regulatory or legislative change
- marshal a new coalition of interested stakeholders across the local government sector with an eagerness for new thinking on capital finance
- have a dedicated launch event with media interest at a central location attracting both a specialist and high-profile audience
- identify opportunities to influence policy formulation in key Government departments and the pre-manifesto discussions across the main political parties
- distribute copies of the report across the main players of relevance to this financial debate

In the medium term the project will:

- be publicised in the specialist trade press through articles and comment pieces
- see opportunities for showcasing findings and conclusions at conferences and other national events
- create opportunities to meet with key decision-makers
- enliven the debate on finance reform across the public and private sectors

In the longer term the project will:

- shift the debate on public sector finance policy
- offer new thinking at a time when alternative approaches are required
- focus particularly on the needs and interests of local government and local communities

Budget

The total budget costs for completion of this project will be £40,000+VAT, and it is our intention to seek a partnership of two or three co-sponsors to collaborate in partnership. A steering group will be established although the independent editorial integrity of the research will be an important feature of the partnership.

To find out more about the NLGN and our previous work, please contact James Kirkland (020 7015 1384, jkirkland@nlgn.org.uk) or visit www.nlgn.org.uk.

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