

SECURING A RESILIENT FUTURE

CAPITAL SPENDING FOR SOCIAL VALUE



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EXECUTIVE SUMMARY

Local government is revenue poor, but capital rich. While revenue budgets have fallen considerably over the past five years, capital spending has actually risen in cash terms. In 2014/15, local authorities in England and Wales spent more than £20bn on capital projects ranging from schools and housing to roads and new public transport links, facilitated in part by historically low borrowing rates.

In the past, capital spending has been seen primarily as a means to achieve social goals, for instance by building new schools or leisure centres to meet local need. While securing social benefits from investment remains critical, councils have shifted decisively into a new mode of thinking about their investments.

This report shows how councils are investing for resilience, analysing their new agenda, setting out leading edge examples and making recommendations to help local authorities maximise the opportunities for creative economic and social investment.

The new agenda for local government capital investment is driven by three key motivations:

- **REVENUE GENERATION:** Councils are increasingly using capital investment to generate revenue or make revenue savings. For instance, government plans to allow 100 per cent business rate retention will mean that investing in the growth of local firms will generate a tax return for the local authority. A handful of smaller councils are planning to use their investment plans to become entirely financially self-sufficient, for instance by building and renting property, investing in renewables and taking stakes in local businesses.
- **INVEST TO SAVE:** Councils can use capital projects to introduce new technologies and redesign services to reduce demand and promote independence. For instance, investments in extra care housing for the elderly can encourage lower need residents to support higher need neighbours, reducing the burden on the public purse.
- **SOCIAL VALUE:** Councils can use capital investment to bring a collective benefit to a community. Social value asks the question: 'If £1 is spent on the delivery of services, can that same £1 be used, to also produce a wider benefit to the community?'¹ For example, investing in a local leisure centre could produce public health benefits or greater social capital in a community. This is a relatively underdeveloped aspect of local capital investment strategies, but it is likely to become more important as councils become ever more ambitious in their investment strategies.

While these three outcomes are starting to become entrenched in commissioning practice by the best local authorities, the transition to investing for greater self-sufficiency is far from complete. It could yet be derailed by a lack of public sector commercial expertise, economic and policy uncertainty, or a handful of high profile poor investments. Social value, in particular, is an underdeveloped part of the commissioning process.

Our research was conducted before the referendum on Britain's membership of the European Union, and it remains to be seen how council investment decisions will be affected by Brexit. In the short term, decisions by the Bank of England suggest that local authorities will continue to benefit from low interest rates, especially as councils can access funding directly from the Treasury. The new government under Theresa May seems likely to relax the previous administration's fiscal targets and has promised an industrial strategy which seems likely to involve continuing capital investment routed through local government.

The danger may not be the supply of finance so much as an economic downturn which damages the property market. Without rental income and rising land values, many councils will find their investments suddenly become a lot riskier. Local government's increasingly commercial outlook is probably here to stay, but it clearly needs to be robust in the face of recessions and it could still be choked off by substantial rate rises.

RECOMMENDATIONS

The report concludes by making the following recommendations:

- **Councils should drive towards financial self-sufficiency by maximising the income they get from their investments:** as central government funding falls, councils must make the most of the opportunity afforded by low interest rates.
- **The government should put councils at the heart of its industrial strategy:** central capital spending should continue to be routed through new mayors and combined authorities, ensuring that it is well targeted to unblock and unlock stalled growth projects on the ground.
- **Local investment strategies must balance ambition with prudence:** councils should publish a 25-year forward view of their investment strategies showing how they have managed risk and demonstrating that they not have committed local taxpayers to unacceptably high levels of risky debt. This should include modelling for a post-Brexit downturn.
- **Councils need to invest in commercial expertise:** local authorities need access to high quality commercial skills if they are to make smart investments. This may require a push on training and development of in-house staff as well as schemes to bring in private sector talent.

■ **Councils must retain a sharp focus on the public benefit of their investments:** councils need to bring their communities with them by ensuring that their investments deliver tangible economic, social and environmental benefits to communities as well as generating a return to the council. If councils consistently invest for public benefit, then their communities will be left with a useful asset even if the promised financial return does not entirely materialise.

■ **Central government must create a stable policy environment for local government borrowing:** the current council finance regime is considerably uncertain, as is the wider policy context in areas such as publicly-funded house building. Ministers must create a stable environment so that councils and their private partners have the confidence to invest their capital reserves to drive growth.

