Local Authority Finance Corporation: *An Answer for Infrastructure Investment?*

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For the last fifteen or so years local authorities have undertaken major capital investment financed by diverse Central Government programmes. These programmes have now largely been turned off. The emphasis is now upon local growth with a shift from social to economic infrastructure. Local authorities are expected to provide the underlying infrastructure needed to facilitate private sector growth and regeneration. How can local authorities achieve this in these times of austerity?

The principal means will be for local authorities to maximise the opportunities from existing resources available to them. One of the public sector's most valuable resources is its asset base, estimated to be worth around £385bn. Private finance can be raised against public sector assets using different PPP structures. Although there are several structures which can be used these tend primarily to be variations through the use of a corporate entity, a Local Asset Backed Vehicle (LABV). The principle underpinning whichever structure is used is capturing the underlying increase in the value of assets for capital investment.

With the movement of Localism through local authority self determination, there will be increasing opportunities to utilise localised revenues to finance capital investment. There have been parallel reforms of the local authority General Rate Fund and Housing Revenue Account. Both of these local authority accounts currently involve central pooling (of business rates in the GRF and Council having surpluses in the HRA) and redistribution by reference to "need". The reforms, in the case of both housing rents and business rates, allow local authorities to retain revenues locally and thereby create a valuable income stream against which finance can be raised.

However with all this change how can local authorities pull together both their own resources and the resources of other local authorities?

One approach may be for one or more local authorities to establish a Local Authority Finance Corporation (LAFC). The aim of a LAFC would be to act as a focal point for local authority resources for investment in infrastructure and regeneration. The LAFC would be formed as a corporate entity and owned by the local authority or authorities concerned. The LAFC would have an investment board comprising of local authority business and other stakeholder representatives which would take high level decisions on investment priorities and raising finance for these.

The jurisdiction of the LAFC could for example, be co-terminus with the extent of Local Enterprise Partnership areas. However, the intention would be for the LAFC to be no more than a fundraising and investment body or agency.

So how would the LAFC work? The LAFC would be a "hopper" for diverse sources of funds, whether internal or external. Where, as is likely, it spans more than one local authority, the LAFC would comprise the "pool" for funds and other resources contributed by each of the local authorities. It will invest in cross authority infrastructure or in infrastructure in a single local authority area where it is of strategic importance.

The LAFC could take advantage of current and new funding techniques for example, local authorities could borrow in accordance with the prudential borrowing regime to fund the LAFC. With the potential increase in the cost of borrowing from the Public Works Loans Board the LAFC could also source funds from the capital markets on behalf of one or more local authorities. This could achieve economies of scale and lower cost of borrowing for the local authority borrower.

Bonds could be raised on or off the local authority balance sheet depending upon whether ring fenced revenues are available. To be off balance sheet the bonds would need to be issued by a special purpose vehicle independent of the LAFC and care will need to be taken to avoid the prohibition contained in the Local Government Act 2003 on local authorities charging their assets. In this way for example the LAFC could be a means of raising finance or be an intermediary in any PPP arrangement.

The LAFC could play a significant role in relation to the retention of business rates and/or Tax Increment Finance by local authorities. It could raise the necessary external finance to fund the infrastructure (probably by way of long term debt to refinance developer or public

Continued on next page

funding for the infrastructure) to be repaid from the tax increment. This would be the case whether funding is by way of a debt repayment obligation from the local authority or non recourse revenue bonds. Again the LAFC could achieve economies of scale where funding for several TIFs is channelled through the LAFC and thereby used as a means of spreading risk.

The LAFC could also act as a "hopper" for revenues earmarked for infrastructure for example, Community Infrastructure Levy, New Homes Bonus and other remaining grant sources such as the Regional Growth Fund. It could also, probably through, subsidiaries and joint ventures form local asset backed vehicles using public sector assets and private sector resources as a means of raising finance for investment in infrastructure.

The LAFC is a delivery concept which local authorities may wish to consider in these straightened times.

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