Local Government Association

Local Infrastructure rate – Consultation response

23 January 2017

Submission

About the Local Government Association

The Local Government Association (LGA) is the national voice of local government. We work with councils to support, promote and improve local government.

We are a politically-led, cross party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. We aim to influence and set the political agenda on the issues that matter to councils so they are able to deliver local solutions to national problems. The LGA covers every part of England and Wales, supporting local government as the most efficient and accountable part of the public sector.

This response has been approved by the leading members of the LGA's Resources Board, following consultation with the sector.

General points

The local government sector is facing unprecedented financial pressures during the current spending review period. The LGA calculates that the sector faces a funding gap of £5.8 billion by the end of the decade.

Any Government initiative that has the potential to reduce costs to local government is therefore welcome, and we believe the proposed local infrastructure rate is in that category. We therefore welcome the proposal, although we have some suggestions for improvements that would increase its impact. These are outlined below.

Amount

The amount proposed is £1 billion over three years (so an average of £333 million in each year) and is to cover all local government across the whole UK. This represents less than 2% of the average annual capital spend by local authorities in recent years in England alone. The amount, although welcome, is therefore unlikely to have a significant impact on capital spending plans.

Rate

The rate is the same as the project rate which was offered recently through LEPs, and which is being discontinued. The rate represents a saving of 0.2% on the current PWLB certainty rate; on borrowing of the full £1 billion that equates to an annual revenue saving of £2 million across the sector as a whole (or 0.03% of the forecast annual funding gap). A bigger discount would have a greater impact.

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Process

We are concerned that the bidding process will add bureaucracy and uncertainty. The consultation does not go into detail of how the bidding process will work and we would urge that any process is made as simple and as quick as possible, preferably with the decision being made in a timeframe similar to the current PWLB approval process. The immediate and certain availability of borrowing from the PWLB is a big advantage to the sector and is appreciated. Having to delay borrowing while going through a bidding process with no certainty of that bid succeeding will be a significant disadvantage to the project involved.

Limitations over service areas eligible

The proposals are that the only projects that will be considered for the rate will be in the "transport, energy, flood defences, water, waste, and digital communications sectors". This will exclude a lot of local government capital spending on economic infrastructure – for example cultural investment. Local authorities are best placed to assess the economic and infrastructure needs of their areas and we urge that any local infrastructure projects should qualify for the new rate.

Formal response to questions in the consultation

Question 1: How would the introduction of the Local Infrastructure Rate at gilts + 60 basis points affect local authorities' infrastructure investment?

As outlined above, we believe that the proposals will have a positive but marginal impact on local authorities' infrastructure investment. This impact could be made greater if the amounts available under the scheme were increased, the rate offered were improved, and the types of qualifying investment widened.

Question 2: How would the introduction of the Local Infrastructure Rate at gilts + 60 basis points impact lenders in the local government debt market?

Since the majority of local government borrowing is already via the PWLB, and since the discount being offered is positive but relatively small, we believe the impact on the local government debt market will be negligible.

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