



HM Treasury

Local Infrastructure Rate: Government Response

December 2017

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Chapter 1

Introduction

- 1.1 For too long, the UK has lagged behind other advanced economies on productivity. High-value investment in infrastructure is one way of addressing this problem. Infrastructure contributes directly to higher productivity, which in turn leads to long-term improvements in wages and living standards.
- 1.2 The government's plans mean that, by the end of this Parliament, public investment in economic infrastructure will have doubled in a decade, from £12 billion in 2012-13 to at least £24 billion in 2022-23, in real terms an increase of more than 60%¹. The government believes it is important to support local authorities in delivering infrastructure investment. In many cases, local authorities may be best placed to understand local infrastructure needs, but high costs of borrowing could prevent them from delivering projects to meet these needs.
- 1.3 At Autumn Statement 2016, the government announced that it would consult on lending local authorities up to £1 billion at a new Local Infrastructure Rate set at gilts + 60 basis points for projects that are high value for money. Local authorities would have three years to take out their loans from the Public Works Loan Board (PWLB), with a maximum term of 50 years.
- 1.4 The local government debt market is evolving, with new trends emerging and new lenders entering the market. In order to fully understand the impact of the Local Infrastructure Rate, the government consulted before deciding whether to introduce it.
- 1.5 The Treasury published its consultation on 15 December 2016 and closed it on 27 January 2017². This document provides a summary of the responses received and outlines the government's response to the consultation. We would like to thank all those who responded to the consultation. All responses have been given due consideration.
- 1.6 The majority of consultation responses commented that the Local Infrastructure Rate would have a positive impact on local infrastructure investment and a negligible impact on private lenders to local government. The government therefore plans to make available £1 billion of lending at the Local Infrastructure Rate of gilts + 60bps to English local authorities,

¹ Public investment in economic infrastructure as defined by the National Infrastructure Commission's Fiscal remit. For more information, see Autumn Budget 2017 data sources.

² 'Consultation on introducing the Local Infrastructure Rate', HM Treasury, December 2016

and will open for bids in due course. Corresponding shares will be made available to local authorities in Scotland and Wales.

Chapter 2

Summary of responses

- 2.1 HM Treasury received a total of 43 responses to the consultation. Four responses were received after the deadline, but have nonetheless been considered and included in this summary. 37 responses were from local authorities and local authority associations, two responses were from financial advisory companies, two responses were from private lenders and one response was received from a public sector service provider. The government also received a response from the Chartered Institute for Public Finance and Accountancy (CIPFA). Annex A provides a list of the organisations that responded to the consultation.
- 2.2 The consultation consisted of two questions. A summary of responses is provided below.

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

Consultation responses

- 2.3 There were 42 responses to this question. Thirty-four responses welcomed the introduction of the Local Infrastructure Rate. Ten responses from local authorities explicitly indicated that they would consider their capital programme priorities and bid for funding if appropriate to do so.
- 2.4 24 respondents mentioned that they would favour a larger allocation, and 15 mentioned that they would favour a lower rate.
- 2.5 Seven responses stated that local authorities might not need to borrow at Local Infrastructure Rate, since they have accumulated sizeable capital reserves that can be used for internal borrowing.
- 2.6 22 responses made reference to the proposed bidding process. Many responses requested that the process be as transparent as possible, in order to minimise uncertainty. In particular, responses requested more detail about what would be considered high value for money. Some worried that a particularly bureaucratic process would not make it worthwhile to bid, especially given the small discount over Certainty Rate. Some responses questioned why a bidding and approval process should be required at all, on the grounds that local authorities are best placed to identify local infrastructure needs.
- 2.7 Nine responses stated that they were happy to prepare bids in line with Green Book guidance, as proposed in the consultation. No responses

expressed dissatisfaction with this requirement. However, some responses expressed concern that the net present value criteria would lead to over-optimistic bids and would disadvantage projects that do not generate cash returns.

- 2.8 Four responses argued that the scope of the Local Infrastructure Rate would be too narrow to encourage greater infrastructure investment. Two responses suggested that culture and leisure projects should be eligible for Local Infrastructure Rate allocations.

Government response

- 2.9 The government welcomes the positive response to the Local Infrastructure Rate.
- 2.10 The Local Infrastructure Rate has been set at gilts + 60 basis points to reflect the availability of capital funding to local authorities, and to encourage appropriate borrowing and investment decisions.
- 2.11 A bidding process is required to ensure that the limited amount of discounted lending is awarded to projects which provide evidence of high value for money. The government notes respondents' concerns that an onerous bidding process could undermine any benefits from the new rate and has taken these into account while drawing up its bidding criteria, which can be found in Annex B.
- 2.12 The government welcomes the willingness of local authorities to prepare bids in line with the Green Book. The Green Book encourages a more thorough, long-term and analytically robust approach to public sector appraisal and evaluation. We note the comments from some respondents about valuing costs and benefits for which there is no readily available market data. In these cases, a range of techniques can be applied to elicit values, even though they may in some cases be subjective. Local authorities should consult the [Green Book](#) for further guidance¹.
- 2.13 The proposal to limit the rate to certain sectors is linked to the government's strategy to boost economic infrastructure. Investing in transport, energy, flood defences, water, waste and digital communications will help to address the UK's long-standing weakness in productivity.

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

Consultation responses

- 2.14 There were 37 responses to this question. 35 respondents said they did not think the Local Infrastructure Rate would have a significant impact on lenders in the local government debt market. One respondent commented that a reduction in PWLB's loan pricing increases the challenge to other lenders.

¹ 'The Green Book: appraisal and evaluation in central government', HM Treasury, November 2016.

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- 2.15 The government takes assurance from the majority of responses which suggest that the Local Infrastructure Rate will have a minimal impact on other lenders to local authorities.
- 2.16 The government would welcome bids for projects that have already secured part of their funding from private lenders, but does not intend to make matched funding a mandatory requirement.

Other comments

- 2.17 Nine responses commented on other PWLB policies, which were considered out of scope for the purposes of this consultation.

Chapter 3

Next steps

- 3.1 The government notes the consensus among respondents that the Local Infrastructure Rate would have a positive impact on infrastructure investment by local authorities.
- 3.2 The government takes assurance from the consultation that the Local Infrastructure Rate would have a negligible impact on other lenders in the local government debt market.
- 3.3 The government therefore plans to make available £1 billion of lending at the Local Infrastructure Rate of gilts + 60bps to English local authorities. Two bidding rounds, one in Q4 2017-18 and one in Q4 2018-19, will each account for half of the total lending. Local authorities that choose to bid are required to prepare bids in line with the business case template in Annex B. Corresponding shares will be made available to local authorities in Scotland and Wales

Annex A

List of respondents

A.1 Below is a list of organisations that responded to the consultation:

Arlingclose Limited
Basingstoke and Deane Borough Council
Bilfinger GVA
Central Bedfordshire Council
City of Wolverhampton Council
Chartered Institute of Public Finance and Accountancy (CIPFA)
Derbyshire County Council
District Councils' Network
Doncaster Metropolitan Borough Council
Essex County Council
Forest Heath District Council and St. Edmundsbury Borough Council
Gateshead Council
Gloucestershire County Council
Greater Manchester Combined Authority
Guildford Borough Council
Hertfordshire County Council
Leeds City Council
LGSS
Local Government Association
Lloyds Banking Group
Manchester City Council
Newark & Sherwood District Council
Newham London Borough Council
Norfolk County Council
Nottinghamshire Police and Crime Commissioner

Oxfordshire County Council
pbb Deutsche Pfandbriefbank (PBB)
Plymouth City Council
Portsmouth City Council
Redbridge London Borough Council
Salford City Council
Sheffield City Council
Shepway District Council
Society of County Treasurers
Society of Local Authority Chief Executives and Senior Managers (SOLACE)
Solihull Metropolitan Borough Council
Staffordshire County Council
Sunderland City Council
Torfaen County Borough Council
Transport for London
Tunbridge Wells Borough Council
West Dunbartonshire Council
Westminster City Council

Annex B

Business case template

This annex sets out the government's proposed bidding criteria for Local Infrastructure Rate. These are only indicative and are subject to change before the government publishes its final bidding criteria in due course.

In support of applications for Local Infrastructure Rate, local authorities must submit a business case in line with the template below. Where appropriate, applicants should provide supporting evidence of any claims and details of any assumptions. In particular, the government will look favourably on projects which supporting evidence shows can begin quickly once funding is secured.

This bidding process is intended to ensure that allocations at Local Infrastructure Rate are awarded in transparent way. HMT and DCLG will not take a view on a project's rationale or deliverability. Ultimate responsibility for local authority spending and borrowing decisions lies with locally-elected councillors, who are democratically accountable to their electorates. Local authority borrowing and investment decisions are subject to the prudential framework.

The government expects local authorities to prepare business cases in line with Green Book guidance. Those involved in preparing or reviewing business cases are recommended, but not required, to undertake Better Business Cases training. However, the government does not expect this business case to significantly exceed what local authorities would normally develop in respect of a major capital project.

A local authority who is applying to the Housing Infrastructure Fund (HIF) can use the same information to support an application to access borrowing at the Local Infrastructure Rate. Local authorities who make a successful application to the HIF and also want to apply for the Local Infrastructure Rate for a related part of the project do not need to submit an additional full business case. All they need to do is indicate that they want to use the Local Infrastructure Rate for borrowing related to their HIF bid.

Any successful application to the HIF will automatically qualify for access to the Local Infrastructure Rate, provided that the project is for one of the categories of infrastructure that is eligible for the Local Infrastructure Rate, and that there is sufficient borrowing capacity remaining.

Bids will be ranked in order of value for money. If there are more bids than available funding, those that deliver the greatest value for money will be prioritised.

1. Introduction

- This business case seeks approval for a Local Infrastructure Rate allocation of £Xm for ...
- This business case comes under the category of transport/ energy/ flood defences/ water/ waste/ digital communications.

2. Strategic case

This sets out the strategic context, the case for change, the investment objectives and the main risks associated with the scheme. The stated investment objectives must be realistic, quantitatively expressed and have a timescale.

2.1. The strategic context

- Our strategy and objectives are as follows ...
- The project supports our strategy in the following way ...

2.2. The case for change

- The existing situation is as follows ...
- The difficulties and service gaps caused by the existing situation are as follows ...
- On the basis of this analysis, the recommended scope for this project is as follows ...

2.3. Project readiness

- Once funding is secured, we expect work on the project to begin within X months ...
- This is supported by the following evidence ...

3. Economic case

This demonstrates that the bidding authority has selected a preferred way forward, which best meets the existing and future needs of the service and optimises value for money.

It is necessary to take account of the costs and benefits of the project for local residents and organisations (users and non-users alike), as well as the bidding authority and the wider UK public.

3.1. The proposed project

- On the basis of the above analysis, the preferred and recommended way forward is as follows ...
- This meets existing and future service needs in the following ways ...

3.2. Net present value analysis

- Our projected estimates of benefits and costs for the project are as follows ...
- Our projected estimate of net present value for the project is as follows:

- The following benefits have not been quantified ...
- Of the unquantified benefits, the following are considered to be decisive ...
- Sensitivity analysis based on the potential variations in the key input variables is set out as follows ...
- This analysis is based on the worst likely outcome from the range of possible key input values at an X% confidence level ...

Table 3.A: Net present value analysis

Category	Year 1	Year 2	etc.
Wider economic welfare benefits:			
Benefits to the public sector:			
Total benefits			
Wider economic welfare costs:			
Costs to the public sector:			
Total costs			
Unadjusted total net benefit			
Risk adjustment ¹ :			
Residual Optimism Bias adjustment ¹ :			
Discounted total net benefit value			

4. Commercial Case

This case outlines the procurement strategy for the proposal setting forth the procurement plan and any preliminary negotiations / market testing that has taken place.

5. Financial case

This case sets out the actual financial costs to the public sector of the proposal.

6. Management case

This case sets out the actual plan for implementation, how the objectives will be delivered and the contingency plans in place for if risks materialise.

Signed:

Date:

Section 151 Finance Officer

¹ As set out in the Green Book

HM Treasury contacts

This document can be downloaded from
www.gov.uk

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