

# LGA Conference

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# Local Authority Investment – Setting the scene

- Why do we invest?
- How do we pay?
- Prudential Borrowing
- Looking to the Future
- Some *asks* of government

# Local Authority Investment – what is the purpose?

*To invest in local authority assets, services and communities to support corporate objectives and local strategic plans*

***Rule of thumb : local investment need will exceed resources available to a local authority***  
***Priorities must be assigned and choices made***

# Local Authority Investment – what does this mean?

- To acquire, maintain and improve assets that will be used to benefit or provide service delivery (Asset Management Plans)
- To meet investment need (e.g. for new housing, school places, highways, public realm, infrastructure, community facilities, etc.)
- To improve revenue sustainability - invest to save, service transformation (e.g. ICT; buildings; etc.)
- To stimulate economic growth and regeneration
- To enhance commercial portfolio of property or land interests
- To finance local authority companies, joint ventures, joint developments or partnerships

# Local Authority Investment – What do we get for it?

- Housing
- Schools buildings and pupil places
- Libraries and Leisure Centres
- Roads, street lighting and public realm
- Social care and health facilities
- Community facilities
- Administrative buildings
- Technology and business improvement and efficiency
- Land and property for service delivery, social regeneration and commercial portfolio
- Etc.

# Local Authority Investment – How do we pay?

Revenue contributions

Capital receipts (consider right to Buy)

Earmarked reserves (often a deferred revenue contribution)

Grant Funding (normally regional or central government)

Internal borrowing

External borrowing (PWLB or other)

Other corporate finance deals (e.g. LOBOS)

***Cash is king!***

***With exception of grant, all funding sources will have a call on revenue  
– Council Tax or Council Rent (HRA)***

# Local Authority Investment – A Unique Decade

- *Localism* and *Wellbeing* powers being further tested
- Developer ‘risk paralysis’
- Austerity
  - unprecedented cuts in LG funding front loaded
  - partner organisations also under financial stress (e.g. NHS; RSLs)
- Adult Social Care in crisis
- Housing crisis – cost and availability; affordable housing; viability
- Significant changes in schools funding
- Local authorities encouraged to be ‘more commercial’
- Retail sector, town centres and high streets in decline

***Underpinned by sustained period of low interest rates and developer uncertainty – The perfect storm.....***

# Local Authority Investment – A Unique Decade

***Underpinned by sustained period of low interest rates and  
developer uncertainty***

***The perfect storm.....***



## Local Authority Investment – Benefits of prudential code

Historically local authorities were limited through central controls on borrowing – highly restrictive

Under the Prudential System individual authorities are responsible for deciding the level of their own **affordable** borrowing

The system is designed to enable authorities that need and can undertake capital investment to do so within a robust framework, ensuring external borrowing is **prudent** and **sustainable**.

***Recently updated – one of the most reliable controls and checks that we have in local government***



# Local Authority Investment – what it really means

Simone Hines

Executive Director – Resources

Nuneaton and Bedworth Borough Council

President of Society of District Council Treasurers



# Local Authority Investment – what it really means

## Leisure Centres

- Local leisure facilities – old buildings (45 years) in need of investment and modernisation.
- Deprived borough – lower Quality of Life and Health indicators than other areas of the County and 7 Wards in 10% most deprived nationally – so important for the Council to provide good quality, accessible leisure facilities
- Low land values – limited Developer S106 contributions despite significant house building
- Need to invest circa £35m in two sites in the medium term
- Maximum of £8m available from S106 contributions – rest will need to come from borrowing
- Around £1.2m of annual borrowing costs – shortfall over income from leisure centres of about £250k p.a.
- Political priority – so need to identify funding!



# Local Authority Investment – what it really means

## Affordable Housing

- Council owned Housing stock – around 5,500 homes
- Significant increase in use of temporary accommodation in recent years
- Lifting of the HRA borrowing cap in October 2018 – welcome news
- Aiming to build 1,000 properties/acquisitions over life of 30-year Business Plan
- However – based on current trends we will lose around 1,200 through Right to Buy in that time – not able to meet 141 replacement
- PWLB increase in October increased borrowing costs for the HRA by around 15% - from £82m to £94m



# Local Authority Investment – what it really means

## Affordable Housing

- Will reduce the amount of new properties that the HRA will be able to build by around 100 (or maintenance of existing stock will need to be reduced if we want to continue with the same new build programme).
- To put into context – we have around 70 households in temporary accommodation at any one time
- HRA Business Plan will need revising - what will be our priority?



# Local Authority Investment – what it really means

## Town Centre Regeneration

- Nuneaton TC - low land values - the Council is having to act as developer as there is little profit in the scheme and developers don't want to take the risk.
- Council needs to borrow around £40m to bank-roll the scheme – need to show confidence in our Town Centre so that private investment follows.
- If we aren't prepared to take a risk why would the private sector?
- Involves creation of leisure, restaurants and residential as well as creative start-up and incubation space for small businesses – changing the place and future proofing the High Street



# Local Authority Investment – what it really means

## Town Centre Regeneration

- Shortlisted for both Future High St and Stronger Towns Funding – but PWLB announcement is making it more difficult to deliver real change.
- Scheme is on the cusp of viability - PWLB announcement has increased borrowing costs from £3.6m to £12.3m and gives us an annual revenue gap of around £400k per annum.
- We are now reviewing the scheme and deferring Cabinet approval.



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# Local Authority Investment – what it really means

- Approaching £75m of borrowing to deliver Town Centre Regen and new/improved Leisure Facilities (Council net budget is approx. £14m)
- Viability issues – made worse by recent PWLB increase
- Both are political and community priorities
- Council needs to identify either revenue savings to support borrowing costs or other sources of funding
- Limited capital receipts – exploring options for land disposals



# Local Authority Investment – Some concluding thoughts

- Local authorities have a responsibility to invest in their services to benefit local tax payers and service users
- All investment decisions must continue to be subject to VFM, the prudential code and appropriate professional advice
- Local authorities already manage commercial portfolios and will continue to do so
- Local Authorities kick start growth and need simple, flexible and straightforward and *low cost* financing
- Place building requires local investment in community facilities
- Local Authorities well placed to cut into risk paralysis

# Local Authority Investment – Some asks for Government

- Reconsider increase in PWLB rates and the impact of the recent increase on local authority plans
- Scope for preferential PWLB rates for housing, regeneration, schools and community facilities?
- Transport Infrastructure – need to unlock projects faster
- Climate Emergency investment – *latest giant* sized elephant in the room
- Business Rates – have we lost investment opportunities in retention and devolution models
- Control of lending agencies – including banks and management consultants
- Reform Right to Buy