HM Treasury

Local Infrastructure Rate

Introduction

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.

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%. The government believes that it is important to support local authorities in delivering infrastructure investment. In many cases, local authorities are best placed to understand local infrastructure needs, but high costs of borrowing could prevent them from delivering projects to meet these needs.

3. To incentivise the construction of new infrastructure, at Autumn Budget 2017 the government announced that it would make available £1bn of lending at the Local Infrastructure Rate of gilts + 60bps to English local authorities. Corresponding shares will be made available to local authorities in Scotland and Wales.

4. This prospectus provides detailed information on how local authorities in England can apply to access the Local Infrastructure Rate and how government will assess which proposals to fund. Separate guidance will be provided for local authorities in Scotland and Wales.

5. Applications will be assessed by MHCLG officials on behalf of HMT. The final decision on loan finance allocations will be taken by HMT ministers.

What types of proposals do we wish to fund?

6. The Local Infrastructure Rate bidding process is designed to help incentivise local authorities to construct infrastructure that otherwise would not be considered to be affordable.

7. The government will look favourably on projects where supporting evidence is provided to demonstrate that they can begin quickly once funding is agreed.

When will applications be accepted?

8. There will be two bidding rounds, each with a provisional allocation of £500m of Local Infrastructure Rate borrowing. Any unallocated funding from the first bidding round will be carried over to the second bidding round.

9. The first bidding round will run from 1 May 2018 – 31 July 2018 and the second bidding round from 1 January 2019 – 31 March 2019. No preference will be given depending on when in a bidding round a specific application is received. An assessment of which applications have been allocated Local Infrastructure Rate funding will not be made or communicated until each bidding round has closed.

What will an eligible application look like?

10. Unless passporting from the Housing Infrastructure Fund following the process set out in paragraph 18 below, local authorities should submit applications in the format set out in **Annex 1**.

11. All applications should be submitted to localinfrastructurerate@hmtreasury.gov.uk

12. To be eligible for the Local Infrastructure Rate, applications must meet the following four criteria:

<u>Criterion 1: Be from a local authority or local authorities with responsibility for planning infrastructure requirements and delivery at a strategic scale</u>

13. Authorities with responsibility for planning infrastructure requirements include:

- The Greater London Authority
- Mayoral Combined Authorities
- Single, upper and lower tier authorities (London boroughs, county councils, unitary authorities, metropolitan boroughs and shire districts).

14. The government will consider joint applications, and would encourage local authorities to set out their approach to joint working and submit joint applications where their infrastructure needs align. All joint applications require a single local authority to be identified as the lead bidder. Joint applications will need to demonstrate that both or all local authorities are taking a strong and active role in delivering the scheme, including committing

their own resources and being part of the scheme’s governance and project management.

15. Local authorities can submit more than one bid in a bidding round. Where a local authority chooses to submit multiple bids in a bidding round, it should rank the bids in order of priority. When ranking bids we would encourage local authorities to consider the value for money and deliverability of the infrastructure to be funded.

16. When we assess bids against our criteria we will look at each local authority’s highest priority bid first. Depending on the amount of Local Infrastructure Rate funding available we may then look at lower priority bids in ranking order.

17. We do not expect local authorities to bundle together lots of different proposals into a single bid. Instead we are looking for proposals that make cohesive and strategic sense. For example, a bid could cover a single piece of infrastructure that will unlock economic development in a range of locations or it could cover multiple pieces of infrastructure that unlock economic development in a specific location.

18. Where a local authority has bid for the Housing Infrastructure Fund, it can use the same information to bid for the Local Infrastructure Rate, provided this includes the Net Present Social Value (NPSV) and Benefit Cost Ratio (BCR) of the bid and an indication of when works would begin.

Criterion 2: Be for a maximum of £100 million

19. We expect to provide up to a maximum of £100 million of Local Infrastructure Rate borrowing for any one applicant.

Criterion 3: Deliver infrastructure

20. We will support physical infrastructure that a local area needs in order to generate economic growth. The types of infrastructure development that the government wishes to support fall into the categories of:

- Transport
- Energy
- Flood defences
- Water
- Waste
- Digital communications

Criterion 4: Be deliverable to a reasonable timetable

21. Applications where the infrastructure construction cannot commence prior to 1 April 2022 will not qualify for Local Infrastructure Rate borrowing. We will ask all bidders to provide a profile of when they expect to spend funds borrowed to deliver infrastructure, and provide funding according to that profile.

How will we assess applications?

22. All eligible applications will be assessed using the following criteria:

Value for money

23. We want to maximise the benefits from public money. We also want to ensure that all schemes that access the Local Infrastructure Rate would be an efficient use of public funds. All applications will be required to follow the principles set out in the Green Book and relevant supplementary and / or departmental guidance e.g. WebTAG and the MHCLG Appraisal Guide. These will allow us to assess whether a scheme represents good value for money.

24. To do this, applications will need to estimate the **Net Present Social Value** (NPSV), which is the present value real net societal benefits from infrastructure being built, less the present value real net costs to the public sector of the proposal. All real benefits and costs should be discounted at 3.5% per annum for the first 30 years (any impacts occurring after 30 years should be discounted according to the discount rates set out in the Green Book).

<u>Calculating the benefits</u>

25. We will rank projects by a Benefit Cost Ratio (BCR) and take into account non-monetised impacts. (The BCR is the present value real net benefits divided by present value real net public sector costs). The present value real net public sector costs should include the **total amount of funding being provided by central Government and other public sector organisations. Any revenue that is expected to accrue back to the public sector should also be included in the net present public sector costs (positive revenue flows should be scored as a negative cost)**. This is to make sure that we capture all of the costs to public sector and do not double count the benefits, where these may have already been captured elsewhere. This includes the amount sought from the Housing Infrastructure Fund, where a local authority is applying for both that scheme and the Local Infrastructure Rate as part of the same application, and also any other central Government funding going into the same scheme.

26. Of critical importance is to estimate the **additionality** of each proposal. This is the increase in (real) social value relative to what would have happened in the absence of the proposal.

Other considerations

Deliverability

27. The government will not take a view on a project's rationale or deliverability. Ultimate responsibility for a local authority's spending and borrowing decisions lies with locally elected councillors, who are democratically accountable to their electorates.

28. The government wishes to prioritise projects that can begin as soon as possible. For this reason, applications where the infrastructure construction cannot commence prior to 1 April 2022 will not qualify for Local Infrastructure Rate borrowing.

Annex 1 – Local Infrastructure Rate Application format

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 …

The market failure this proposal is seeking to address is..

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.

Benefits and costs should be split as follows:

Benefits to society (excluding public sector costs and revenue impacts). This includes benefits to individuals and businesses as well as external benefits to society as a result of an intervention e.g. improved environmental outcomes. It should not include any exchequer benefit or wider public sector cost impacts (which are accounted for in total net costs).

Costs to society (excluding public sector costs and revenue impacts). This includes costs to individuals and businesses as well as external costs to society as a result of the intervention e.g. increased greenhouse gas emissions. It should not include any exchequer costs or wider public sector cost impacts (which are accounted for in total net costs).

Benefits to the exchequer and public sector. This includes any projected revenue that might accrue to the public sector as a result of an intervention.

Costs to the exchequer and public sector. This includes all projected costs (capital and revenue) to the public sector as a result of an intervention.

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 Social Value analysis

Our projected estimates of benefits and costs for the project are as follows …

Our projected estimate of the NPSV for the project is as follows:

Our projected estimate of the BCR 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 ...

The key assumptions underlying the benefit and costs assumptions are.. (this should include what level of optimism bias has been applied, what the level of additionality is etc)

The rationale and evidence for each of these assumptions is.…

Net Present Social Value analysis

Category	Year 1	Year 2	etc.
Benefits to society (excluding exchequer and wider public sector impacts)			
Costs to society (excluding exchequer and wider public sector impacts)			
Total net benefits			

Benefits to the exchequer and wider public sector	
Costs to the exchequer and wider public sector	
Total net costs	
Unadjusted total net societal benefit	
Risk adjustment[1]:	
Residual Optimism Bias adjustment[1]:	
Discounted total net societal 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