

# Attracting investment for local infrastructure

A guide for councils



# Contents

Executive summary	4
The UK's infrastructural needs and the role of local government	6
The UK's infrastructural needs	6
Funding infrastructure	7
The changing role of local government	9
Financing infrastructure	12
Types and sources of finance	12
Practical guidance for attracting private and foreign investment into local infrastructure	19
The role of councils in providing infrastructure	19
WHY? Why would someone invest in your locality?	20
HOW? How do they make the commercial model work?	21
WHEN? When should you talk to potential investors?	24
WHO? Who should be involved in the process?	26
Conclusion	28
Further contacts for advice and support	29
Glossary	30

# Executive summary

Global financial markets are more open than ever to investing in local infrastructure and redevelopment schemes in the United Kingdom. For the right project, these sources of finance are virtually unlimited, rapidly deployable and can come with the experience and expertise to support delivery. This provides councils with a unique opportunity to unlock their local areas' potential and raise revenue. However, the infrastructure investment landscape can be a complex for councils to navigate. This guide highlights some of the key opportunities and considerations to help you start this journey.

The UK continues to require increasing levels of investment for infrastructure for the future, reflecting expected population and economic growth, the challenges of climate change, the need to decarbonise the UK's energy supply, and new opportunities to deliver technological change. In the Infrastructure Finance Review Consultation Paper issued by HM Treasury in March 2019, it was highlighted that of the projected £600 billion infrastructure investment pipeline for the next 10 years, half is forecast to come from the private sector.

Infrastructure plays a critical role supporting local communities and the local economy. It can unlock an area's potential, enable residents to access new education, skills, and work opportunities, support local retail and business areas, and increase the viability of new sites for homes and businesses.

The role of local government is changing. New roles and powers for local government have emerged in recent years which make it more viable to access up-front investment for infrastructure that can be repaid or serviced by revenue streams from taxes, services, infrastructure use or enhanced land values.

Foreign Capital Investment (FCI) is a particular source of private investment, which has been successfully used in the past for a range of infrastructure projects as it typically invests large sums, over long time periods, at stable interest rates to enable the development on infrastructure. It excludes the secondary purchase of existing assets for the purpose of income generation. This report discusses FCI alongside other sources of finance and investment for infrastructure, providing guidance and advice to councils. FCI is distinct from FDI (Foreign Direct Investment) which refers to investment into business interests.

Successfully engaging with private investors and FCI can not only bring investment but also critical skills and capabilities to support you bringing an infrastructure project on-stream. To have the best chance of success you should consider the Why? How? When? Who?

## WHY? Why would someone invest in your locality?

Investors will compare investment opportunities on a global basis. For the right investments there is no shortage of available finance. For an investor to regard a local investment opportunity as a serious proposition, they must have long term trust in the governance and capability of the council concerned. This needs to be demonstrated by leadership, local vision, political stability and access to managerial and technical capability and capacity.

## HOW? How to make the commercial model work?

The investment landscape can be complex. Understanding investors and the type of investments they undertake will lead you to the most appropriate investor. Do you know:

- FCI is often looking for schemes totalling more than £100 million in value
- some UK pension funds will look at schemes from £10 million
- pension funds generally seek for returns over 20 or even 40 years.

Investors will be able to work with you on the detailed business model but you need to be clear before you approach them on the type of investment relationship you seek and the appropriate payback mechanisms.

## WHEN? When should you talk to potential investors?

Investors can be brought into your project at various stages and through a variety of mechanisms. They can be a useful source of expertise and capacity and projects can benefit from early engagement. Do you know:

- Passive investors tend to provide finance only, though will likely want to be involved in governance, particularly for significant projects.
- Active investors will want a hands-on role, providing experience and expertise to shape the project.

There is often no need to go through complex procurement processes for investors (as you would delivery partners) as value for money requirements can be satisfied via alternative methods. This can be a complicated area and you should seek advice if you are unsure.

## WHO? Who should be involved in the process?

To successfully deliver an infrastructure project, there are a range of skills, capabilities, resources and stakeholders that need to be involved and coordinated. Key partners can include councils, expert advisors, subnational organisations, local or regional transport bodies, and, if seeking FCI, the Department for International Trade (DIT).

Getting the Why, How, When, Who right will dramatically increase your access to these new sources of finance to deliver the new infrastructure you need.

# The UK's infrastructural needs and the role of local government

## The UK's infrastructural needs

This report discusses the UK's infrastructural needs, the role of local government and how private finance, in particular Foreign Capital Investment (FCI), can contribute towards infrastructure provision. FCI is sourced from other countries or international organisations. Particular sources of FCI, such as sovereign wealth funds or public sector pension funds invest in infrastructure projects because they often seek long-term, low risk, stable-return investments.

Infrastructure supports the functioning of communities and their local economies. It can unlock an area's potential, enable residents to access new education, skills and work opportunities, and make sites for housing and jobs more viable and more likely to be built.

The UK continues to require sizeable investments in infrastructure in the future. The National Infrastructure Commission estimates that there is a significant uplift required in annual public expenditure on infrastructure. It will reach £26.9 billion between 2020-2025, and £29.2 billion between 2025-30. This further increases to £31.5 billion per annum between 2030-35. This compares to the government (both central and local) investing £18.9 billion in infrastructure in 2016,<sup>1</sup> which has increased year-on-year for the past 10 years.

This increase reflects expected population and economic growth, the challenges of climate change, the need to decarbonise the UK's energy supply, heating and transport system, and new opportunities to deliver technological change. In its National Infrastructure Assessment (NIA), the National Infrastructure Commission (NIC) set out a pathway for the UK's economic infrastructure over the next 30 years:

- nationwide full-fibre broadband by 2033
- half of the UK's power provided by renewables by 2030
- three quarters of plastic packaging recycled by 2030
- £43 billion of stable long-term transport funding for regional cities
- preparing for 100 per cent electric vehicle sales by 2030
- ensuring resilience to extreme drought
- a national standard of flood resilience for all communities by 2050.

As well as economic infrastructure, there is also a compelling need to invest in new social infrastructure, such as housing, industrial and commercial property, new schools and hospitals, and to continue to regenerate and revitalise the UK's town centres. The national picture is less clear here, with no Social Infrastructure Commission setting out the UK's key policies and spending decisions, as has been done for economic infrastructure with the National Infrastructure Commission.

<sup>1</sup> Source: ONS, August 2018, Developing new statistics of infrastructure

## In more detail

**Infrastructure** is the basic physical and organisational structures and facilities (eg buildings, roads, power supplies) needed for the operation of a society or enterprise. In this report, we divide infrastructure into two types: **economic infrastructure** - the 'hard infrastructure' that provides transport, energy supplies, flood protection, water supplies and waste treatment, telecommunications and digital networks; and **social infrastructure** that provides the environment and buildings for social and market activities to take place, and for the public to access services and interact including facilities such as schools, universities, hospitals, care homes, social housing, private housing, business parks, industrial parks, science parks and retail sites and premises.

**The UK National Infrastructure Commission<sup>2</sup>** was established on 5 October 2015 as the non-ministerial government department responsible for providing expert advice to HM Government on the pressing infrastructure challenges facing the United Kingdom. One of its main tasks is to undertake a national infrastructure assessment during each Parliament, make recommendations to the government and then monitor the government's response.

The council role in infrastructure is to lead the delivery of local infrastructure improvements and they are specifically tasked to provide sufficient infrastructure to support local plans. Councils also plan and invest strategically to support local economic strategies, and to unlock local housing and employment opportunities. They negotiate agreements with property developers to gain contributions (through Section 106 agreements) to local infrastructure, including road building and social infrastructure such as schools and community facilities.

Councils also provide rail and other transport services (more commonly in metropolitan areas), often in collaboration through a passenger transport executive, and have a role in designating bus routes. With local devolution, city deal and mayoral combined authorities funding, the proposed retention of business rates revenues, and other new financial tools and vehicles – the council role in infrastructure is set to change considerably over the coming decades.

## Funding infrastructure

There is a need to fund infrastructure and the provision of residential, industrial, commercial and public buildings that local communities require in the future. Managed well, new infrastructure can create new income for councils and deliver efficiencies in some services. The recent increase in council borrowing to fund residential and commercial property acquisition and development in order to provide revenue income to replace central government grant funding reflects this.

In the UK, a significant proportion of economic infrastructure is either privately owned (such as energy, water, waste, telecoms and digital networks, rail rolling stock, and airports), or is run or overseen by central government departments (such as Highways England and Network Rail). Social infrastructure tends to be owned by central government and local government, although in the past there have been a number of Private Finance Initiative (PFI) projects where private investors build and own public buildings such as hospitals and schools and they are leased back by government departments or organisations. Both the public and private sector invests in infrastructure – it is estimated that £109.4 billion was invested in construction work in 2017 – £24.7 billion by the public sector, and £84.7 billion by the private sector.<sup>3</sup>

<sup>2</sup> [www.nic.org.uk](http://www.nic.org.uk)

<sup>3</sup> Construction Statistics Annual, Number 19, 2018 Edition, Office for National Statistics

There are a range of sources of finance to pay for infrastructure, including public grants, revenues from taxes, public services, and publicly owned assets and enterprises, and private capital. In the Infrastructure Finance Review Consultation Paper issued by HM Treasury in March 2019, it was highlighted that of the projected £600 billion infrastructure investment pipeline for the next 10 years, half is forecast to come from the private sector. Private capital is increasingly seen as a viable source of funding for certain types of project.

In addition to UK sources of private capital, there is a significant amount of investment capital held by foreign interests such as sovereign wealth funds and foreign pension funds, looking to invest in long term infrastructure and development projects with low-risk, stable-interest returns.

## In more detail: Key sources of finance

**Grants** are public subsidies or finance awards offered to a recipient for public or private purposes. The subsidy is not expected to be paid back, and may be used for infrastructure provision, research, business development, education or other endeavours that are anticipated to support a public good. The grant offering typically includes conditions that must be met, such as reporting performance or results. Bids for grants can often be a one-time competitive process.

**Tax revenue** is defined as the revenues collected from taxes on income and profits, social security contributions, taxes levied on goods and services, payroll taxes, taxes on the ownership and transfer of property, and other taxes.

**Revenues from assets and services** are usually derived from user charges for the use of an asset or the operation of a service in an asset, such as rent, lease payments, tolls, travel tickets, congestion charges, parking fees, or other charges.

**Loans/ debt funding** are the provision of funds for an expected return, such as interest payments, and the return of the principal (initial sum) lent.

**Equity** is the provision of funds in return for an ownership share of a company or asset.

**Private investment and capital** is the provision of finance from private institutions, businesses, and organisations, commonly on a commercial basis that expects a financial return such as fees or interest payments.



## The changing role of local government

Councils have a significant role in infrastructure provision, accounting for 40 per cent of all government expenditure on infrastructure in the UK in 2016. In the past, councils have provided local roads, local transport infrastructure and services, and municipal buildings. Past decades have seen a diminishing local control over capital investment – but these are being reversed as new powers are being promised by central government or advocated by councils themselves.

The environment for local government finance and infrastructure projects funding is changing rapidly. Initiatives such as the London Finance Commission have provided some bold and pragmatic new proposals for financial tools that could be used for local government and the removal of the cap from housing revenue account borrowing now gives many councils the opportunity to borrow to invest in new social housing.

Since 2010, local government has taken a bigger role in place leadership, and in determining local priorities. City, local growth and devolution deals and reforms to local government finance have shifted power and funding to local areas to enable them to take strategic decisions about local investment. Collectively these bespoke deals have enabled localities to develop long-term plans and strengthen local leadership through directly elected city-region mayors, Combined Authorities and Local Enterprise Partnerships (LEPs). Local transport funds were also released from existing Department for Transport (DfT) budgets to local transport partnerships, and further devolution of transport planning and prioritisation has been made via combined authorities and subnational transport bodies. LEPs and private firms also bid for Regional Growth Funds – a competitive system of capital and revenue grants. LEPs and combined authorities have also provided strategies for the use of European Funds.

Mayoral Combined Authorities are a new form of local government, and are able to access between £15 million and £30 million in additional funding each year. Enterprise Zones are also another significant initiative in England, offering business rate discounts, and the ability for authorities to use all business rate receipts for local and regional priorities. Mayoral Combined Authorities and new forms of joint working are spearheading local service reform – such as in Liverpool City Region and Greater Manchester. New models of public service delivery, collaboration and use of shared assets may emerge.

Fifty per cent local business rates retention was introduced in 2013, where councils retain 50 per cent of the value of additional business rates receipts. HM Government is committed to further business rates retention and in 2017 announced it was aiming to introduce 75 per cent business rates retention from 2020 in a fiscally neutral way. This is being piloted in a number of councils in the fiscal year 2019/20.

Many councils are pushing for further fiscal powers. The most comprehensive set of proposals for local fiscal powers were made in 2017 by the London Mayor, London boroughs and private sector leaders in the report of the London Finance Commission<sup>4</sup> (Devolution: a capital idea) – which signals how local government finance may change in the future. The London Finance Commission suggested a more radical devolution agreement which includes such fiscal powers as the full suite of property taxes, an assignment of VAT income, the local contribution to the apprenticeship levy, permissive powers to establish other taxes such as a tourism levy, adult skills, 16-18 funding, all age careers advice, health and social care, employment support, a proportion of innovation funding, and all business support funding, including exporting and inward investment support.

<sup>4</sup> [www.london.gov.uk/what-we-do/business-and-economy/promoting-london/london-finance-commission](http://www.london.gov.uk/what-we-do/business-and-economy/promoting-london/london-finance-commission)

As a key part of delivering the National Industrial Strategy, local industrial strategies developed by Local Enterprise Partnerships<sup>5</sup> and Mayoral Combined Authorities in partnership with councils, will be central to delivering the vision to build an economy fit for the future, with prosperous communities across the United Kingdom, and to drive up productivity. They will provide a distinctive, long-term vision for each area that set out how each locality will maximise its contribution to UK productivity, detailing specific, achievable, long-term priorities. LEPs and Mayoral Combined Authorities are developing their local industrial strategies, undertaking research and strategy development in policy areas such as productivity, supply chains, innovation, education, skills and infrastructure. It is expected that local industrial strategies will help guide the strategic use of local funding streams and act as a gateway to the deployment of future local growth funding. It is important that council infrastructure plans and provision fit within the aims of each local industrial strategy, and play a role in driving growth and productivity.

Infrastructure provision requires significant up-front resources to plan and build, with long lead-times until the main economic and financial benefits begin. Up to recently, councils would typically raise capital finance through central government grants, Section 106 agreements, additional business rates retention, city deals, new homes bonus payments, congestion charges, and loans through the Public Works Loan Board.<sup>6</sup> In future, the changing role of local government, and the resulting new fiscal powers and sources of revenue will provide new means of repaying loans, bond issues (including Municipal Bonds), or other financial instruments.

## In more detail – tools used for raising capital for economic and social infrastructure

- **Section 106 (S106) agreements** are legal agreements between councils and developers; these are linked to planning permissions and can also be known as planning obligations. Section 106 agreements are drafted when it is considered that a development will have significant impacts on the local area (such as increased congestion, or an increase in school rolls) that cannot be moderated by means of conditions attached to a planning decision. They compel the developer to make a financial contribution towards, or provide improvements to mitigate against these impacts.
- **Additional business rates retention** represent the new business rates that may arise from new business activities that result from an infrastructural investment.

### Case study: Milton Keynes Partnership

#### Project: new roof tax to invest in infrastructure

The Milton Keynes Partnership Committee established a 'roof tax' on new homes to pay for supporting infrastructure. Overseeing the construction of 15,000 new homes over a 10-15 year period, it planned to levy £300 million from developers to help cover the estimated £1 billion cost of infrastructure. The levy took the form of a roof tax of £18,500 for each house completed, and £66 per sq ft of commercial real estate. In the mid-2000s there were 25 similar schemes in operation in the UK.

#### Key learning:

The scheme provided an assured, stable revenue stream, reduced the need for complex S106 negotiations and limited delays, attracted further investment and fostered confidence that the infrastructure would be delivered.

<sup>5</sup> [www.lepnetwork.net](http://www.lepnetwork.net)

<sup>6</sup> [www.dmo.gov.uk/responsibilities/local-authority-lending-pwlb](http://www.dmo.gov.uk/responsibilities/local-authority-lending-pwlb)

- **City deals** are agreements between cities and city-regions, to provide advanced funding for infrastructure which will be repaid by additional business rates retention.
- **Road tolls and congestion charges** are in essence, user charges that are intended to pay for the provision of a new road, or as an incentive to discourage car use.
- **Public Works Loan Board** is a UK government body that offers low interest, long-term loans to public authorities, including councils based on revenues and prudent borrowing limits.
- **Government grants** are public subsidies or finance awards offered to a recipient for public or private purposes that are not expected to be paid back.
- **The Private Finance Initiative** is a mechanism by which the private sector can invest in a public asset – usually to plan, construct and manage it on the government’s behalf. They make a return through user charges, fees, and rent. PF2, the most recent version, has been withdrawn by HMG and a replacement has yet to be announced.
- **Land value capture** Major transport investment can significantly increase the value of land, particularly if it is close to a train station or transport hub. Land value capture is a term used to describe the use of this increase in land value to fund investment in public services, such as transport.

## Case study: Birmingham City Council

### Project: land value capture

Curzon Street station<sup>7</sup> in central Birmingham will be the first new intercity station built in Britain since the 19th century but the implications for the project are much wider than just transport improvements -‘The Curzon Street Investment Plan will see £900 million spent on regenerating the area around the new station, leading to the creation of several new neighbourhoods across almost 150 hectares, including 4,000 homes and 36,000 jobs.

#### Key learning:

Through the development of this ‘landmark’ transport hub, Birmingham City Council is seeking to attract investment in numerous related infrastructure projects to regenerate nearby areas and brownfield sites in particular.

<sup>7</sup> [www.hs2.org.uk/stations/birmingham-curzon-street/](http://www.hs2.org.uk/stations/birmingham-curzon-street/)

# Financing infrastructure

## Types and sources of finance

Infrastructure requires a significant up-front capital investment, and may require specialist knowledge and experience, as well as the capacity to deliver the construction phase then manage assets and services for a long period of time.

There are four basic methods by which councils may use capital investment for infrastructure:

- **Capital loan:** to provide loan funds, or investment capital for infrastructure or other developments that will be paid back over time.
- **Managed asset:** capital stock purchased and managed on behalf of the public sector to provide investment capital into a special purpose vehicle that builds and manages a public asset, and they are paid back their investment plus a return over time.
- **Direct investment:** to attract capital to invest in plots of land, buildings or other assets that are part of a regeneration programme or investment framework.
- **Lending to or shareholding in public commercial organisation:** to use capital for investment as part of a council owned asset or service that operates commercially to provide delivery efficiencies or increase return.

There are a wide variety of investors who are keen to work with councils on infrastructure projects. One of the critical drivers of success is the ability to identify and approach the most appropriate investors. Navigating this landscape can be complex and requires either in-house knowledge, a track record built through previous projects and relationships, or working with a neighbouring council or an agent.

Globally there are large sources of finance that are looking for investments. Foreign Capital Investment (FCI) is sourced from other countries or international organisations. Sources of large-scale, long-term FCI include Sovereign Wealth Funds and Pension funds – which tend to look for stable, lower, but predictable returns – and have a track record of investing in infrastructure projects.

At the other end of the scale, sources of short-term finance include risk-finance which requires a high return on investment. Investment funds may search for, and manage investments themselves, or they may use managing agents. They may also invest with other investors in joint ventures or syndicates to spread the risk.

Often project finance deals will involve a significant number of different sources of debt. For instance, offshore wind project deals can often involve multiple banks, the EIB, export credit agencies and institutional debt.

**Table 1: Some examples and typical features to illustrate the complexity of funding landscape**

Type	Examples	Governance
<b>Public Sector</b>		
- Grants	Housing Infrastructure Fund, Department for International Trade etc	Only available to unlock other infrastructure Time limited competitive application rounds Passive
- Debt	Public Works Loan Board, Homes England	Lender of last resort Limits on use, terms and purpose set by HMG Mainly Passive
- Equity	Local Government Pension Funds	Local Investment investing in local economy Similar look and feel to Private Pension Funds Low to Medium Risk/Return profile <b>Minimum investment &gt;£20 million prefer &gt;£50 million</b> Medium Active
<b>Private and Institutional</b>		
- Debt	Municipal Bonds, Financial Institutions	Broad range of return rates, risk appetites and time horizons Mainly Passive
- Equity	Financial Institutions, Pension Funds	Very Broad range of return rates, risk appetites and time horizon Pension Funds tend to look for 20+ year stable revenue stream <b>Minimum investment &gt;£10 million prefer &gt;£50 million</b> Passive → Very Active
<b>Foreign Capital Investment</b>		
- Debt	International Banks	Medium Term Specialist Loans Passive
- Equity	Sovereign Wealth Funds (SWF), New Perspective Funds (NPFs), State Owned Enterprises (SOE)	Very Low Risk: Lower Return: Long time Horizon <b>Minimum thresholds &gt;£100 million, some &gt;£500 million</b> Very Passive There are notable exceptions

Investors expect a return on their capital. Private capital is provided on a commercial basis and requires financial returns. For public sector projects, it can be challenging to develop income streams to repay the interest and capital, as financial institutions can't monetise social value.

An investment proposition needs to articulate costs and how the returns will work, even if at a high level. Typically returns are made by generating revenues or income streams from an asset or service, or result from the sale of the asset.

## In more detail: public sector funding

There are many sources of public sector funding both grants and loans (debt and equity). Many of these have fixed application deadlines and have prescribed uses, such as by project type or purpose and the timescale/phasing of expenditure. Decision-making and the award of funding can be a lengthy process.

- **Grants** are a non-repayable financial award paid for a specific purpose, as defined in a grant agreement with the relevant government department or agency. The Department for Transport (DfT) typically funds transport infrastructure with grants.

### Case study: Worcestershire County Council

#### Project: DfT Grants

The DfT and Worcestershire County Council (WCC) are funding a new bypass in Worcester<sup>8</sup> which will halve peak journey times along the A4440, relieving congestion for residents and businesses, and boosting jobs and economic growth in areas like Great Malvern by transforming access to the M5, Birmingham International Airport and Worcestershire Parkway Station.

The £62 million cost of building the new dual carriageway will be footed primarily through a DfT grant, (£55 million) topped up by councils funding (£7.5 million WCC) whilst the anticipated benefits of this expenditure for the local area are expected to come not only via improved journey times for commuters and businesses but also through the creation of more than 6,000 jobs and the development of up to 5,600 new homes.

#### Key learning:

By identifying additional sources of grant funding, Worcestershire County Council has significantly increased their ability to instigate social/economic benefits within their local area at no extra cost.

8 [www.worcestershire.gov.uk/info/20623/the\\_a4440\\_worcester\\_southern\\_link\\_road\\_improvements/1017/the\\_a4440\\_worcester\\_southern\\_link\\_road\\_improvements](http://www.worcestershire.gov.uk/info/20623/the_a4440_worcester_southern_link_road_improvements/1017/the_a4440_worcester_southern_link_road_improvements)

### Case study: Devon County Council

#### Project: Housing Infrastructure Fund<sup>9</sup>

Devon County Council received £55 million funding from the Housing Infrastructure Fund from the Ministry of Housing, Communities and Local Government (MHCLG) to support the early delivery of infrastructure to support key improvements to transport links in south-west Exeter. This will help instigate the development of 2,500 homes, a Primary and Secondary school, and employment land identified in the Teignbridge Local Plan and Exeter Core Strategy.

This funding will help support the early delivery of infrastructure to support key improvements to transport links including widening sections of the A379, development of new junctions to serve the new development and building a pedestrian/cycle bridge, serving a school campus and community facilities.

#### Key learning:

HIF can be used to target infrastructure improvements that unlock new developments, making them attractive to investors.

- **Loans** are repayable, with terms set by the lender. The main sources of loans used in the past have included the Public Works Loan Board and European Investment Bank.

### Case study: The Public Works Loan Board (PWLB)<sup>10</sup>

The Public Works Loan Board (PWLB) which is a government agency that makes available loan finance to public authorities and councils. There is an arrangement fee payable whilst associated rates are set by statute with repayments made half-yearly. Any borrowing is secured by an automatic charge on the revenues (not the property) of the council.

9 [www.gov.uk/government/publications/housing-infrastructure-fund](http://www.gov.uk/government/publications/housing-infrastructure-fund)

10 [www.dmo.gov.uk/responsibilities/local-authority-lending-pwlb](http://www.dmo.gov.uk/responsibilities/local-authority-lending-pwlb)

Two types of loan are available from the PWLB: Fixed rate loans, where the interest rate is fixed for the term of the loan, minimum term 12 months and maximum of 50 years; and variable rate loans, where the interest rate is variable at one, three or six monthly intervals, minimum term 12 months and maximum of 10 years. The principal and interest can be paid either in 6-monthly instalments, or the interest alone can be repaid every six months, with the principal repayment due at the end of the loan term

**Key learning:**

Public sector financing options are not solely limited to grants, increasingly there are source of loans and equity finance. There is limited accompanying expertise with some of these forms of finance, leading to potential mismatches between payback periods and loan types.

- **The Local Government Pension Scheme.** Recent freedoms have allowed Local Government pension schemes to invest for the benefit of local areas.

**Case study: Local Government Pensions Funds (LGPFs)<sup>11</sup>**

Local Government Pensions Funds (LGPFs) invest in local projects on a similar basis to many private sector pension funds. LGPFs typically involve investments of £50 million and upwards which are considered to be at the lower risk end of the spectrum, though smaller projects are considered if they are 'standard projects, without too many complications'. This said, LGPFs can usually accept more risk than council themselves. Like pension funds they are more interested in investments with long term stable returns (eg onshore wind farms) than faster capital sale projects.

Typically, for housing investments, LGPFs require the developer to put up 50 per cent of the funding.

**Key learning:**

Using local LGPFs can be a great way of using local money to improve the local economy.

**In more detail: private sector and institutional funding**

- **Private and institutional finance** might work for you if you need a large amount of capital for a large-scale or complex project. In addition some financial institutions can provide specialist technical, project development and management skills or capabilities that you could benefit from, if you don't have them in your council.

Private and institutional finance may be suitable if you can generate a return on your infrastructure, once built, to pay the interest on finance and repay the principal. You may be a council who own a commercial company and are willing to give equity shares in return for investment capital.

A project may be too big, too risky, or the returns may take too long (eg over 50 years) to be suitable for PWLB funding. You may wish to put the infrastructure project, investment and repayment vehicle into a special purpose vehicle. Perhaps your project, or end solution needs to be commercially-facing and market viable, and you need institutional finance to make this happen.

- **Municipal Bonds** are a form of debt finance for local government, where private investors purchase shares in the bond – which pays either a regular return or a one-off fixed return once it matures. Founded by councils in 2014, the UK Municipal Bonds Agency<sup>12</sup> (UKMBA) is Local Government Funding Agency that exists primarily to reduce councils' capital long term financing costs in the United Kingdom. It allows councils to diversify funding sources and borrow at a lower cost than is available from central government via the Public Works Loan Board. The agency will sell municipal bonds on the capital markets, raising funds that it will then lend to councils.

<sup>11</sup> [www.dmo.gov.uk/responsibilities/local-authority-lending-pwlb/](http://www.dmo.gov.uk/responsibilities/local-authority-lending-pwlb/)

<sup>12</sup> [www.ukmba.org/](http://www.ukmba.org/)

## Case study: Aberdeen City Council

### Project: Local Bond issue<sup>13</sup>

In 2017 Aberdeen City Council secured £415 million of private sector investment through a dedicated bond issue, enabling it to fund the development of a new Arena and Conference Centre which would reinforce the area's standing within the oil and gas sector and its status as Europe's offshore industries capital.

#### Key learning:

By funding the work in this way the council was able to benefit from more favourable repayment terms, increased investment (the original target was £370 million) and have also enhanced the knowledge of their financial team significantly.

- **Institutional investors**, such as pension funds, are another source of finance. Private UK and international investors are also willing to invest in local infrastructure projects directly. In the UK there is a wide range of finance available from small developer finance schemes through to multi-billion-pound regeneration schemes. There are both active and passive institutional investors. Active investors are keen to get involved in the day-to-day aspects of the developments and bring their own expertise. There will be levels of finance and commercial models available to suit almost any commercially viable proposition. Institutional investors are unlikely to invest below £10 million. Investors are happy to look at both debt and equity financing and both short-term capital returns as well as long term income streams. Typical returns range from the gilts rate plus basis points or above for low risk long-term income streams through to 15 per cent and above for commercial regeneration / construction short-term capital returns. Another source of private investment is Foreign Capital Investment, outlined in the next section.

<sup>13</sup> [www.publicfinance.co.uk/feature/2018/02/building-big-bond](http://www.publicfinance.co.uk/feature/2018/02/building-big-bond)

## Case study: Newcastle City Council

### Project: Long term investment partnership with Legal & General

As one of the biggest urban regeneration projects of its kind in the UK, Newcastle Helix is set to create over 4,000 jobs, 500,000 sq ft of office and research space, and 450 new homes. The aim of the development is to become a major UK hub for scientific research, and technology businesses, creating knowledge-based jobs for future generations in Newcastle and extending the Northern Powerhouse to "the North of the North".

In June 2016, Legal & General became the long-term investment partner of Newcastle City Council (NCC) and Newcastle University (NU), to build and finance the Newcastle Helix development. The partnership is working in collaboration to deliver this landmark regeneration project.

#### Key learning:

Regeneration projects are long-term relationships, forming a partnership with the primary investor at the beginning of the project allows the development to benefit from a wider range of expertise.

## In more detail: Foreign Capital Investment

- **Foreign Capital Investment** involves capital flows from one country to another, granting extensive ownership stakes in domestic companies and assets. Sources of foreign capital include 37 sovereign wealth funds which are collectively worth over US \$7.6 trillion (such as Kuwait Investment Authority, China Investment Corporation, and Temasek Holdings of Singapore), national pension funds (such as South Korea's National Pension Fund with assets of US \$272 billion) and Norway's 'Government Pension Fund' (\$1 trillion), and State-Owned Enterprises that have accumulated mineral-based wealth from mining and oil and gas (such as Gazprom, Petrobras, Statoil, ENI, Sinopec and many from China).



Foreign investment denotes that foreigners have an active role in management as a part of their investment, or they may use fund managers to act on their behalf. Funding sources such as Sovereign Wealth Funds tend not to seek to control or manage investments themselves, but do this via a fund manager. They tend to be passive investors.

Typically foreign capital investors are looking for opportunities worth over £100 million and they tend to look for low risk, long-term investments. Many will not get involved in the project development stage at all as it is too high risk. This means that councils must do the work to bring a fully specified, costed and planned project to investors for review.

The Chinese can be notable exceptions to this, often being active investors involved in the development stage of the project.

### **Case study: Manchester Airport City**

#### **Project: Long term investment partnership with BCEGI (Beijing Construction Engineering Group)**

BCEGI UK has been an equity and construction partner in the £1 billion Airport City project at Manchester Airport since 2013. The development will deliver five million sq ft of offices, hotels, advanced manufacturing logistics facilities and ancillary retail space. Working alongside Manchester Airports Group and The Greater Manchester Pension Fund. It is one of the largest joint venture developments in the UK.

BCEGI is a large state-owned investment conglomerate. BCEGI has opened an office in the city and Manchester now has direct flights to Beijing and Shanghai. BCEGI has offices in Manchester which has enabled it to successfully work in partnership on other £1 billion regenerations in Manchester.

#### **Key learning:**

FCI partners look for long-term relationships. Nurturing these can lead to not only follow-on investments but more opportunity for wider international trade and investment between the countries.

If you have a project where you think that foreign capital investment is suitable, then the Department for International Trade<sup>14</sup>) can work with you to make your infrastructure project and investment proposition attractive to investors.

DIT can help you through the FCI investment process to ensure your project is likely to meet investor requirements, offering councils support as they go through a two-stage process which involves profiling the project being assessed to see if it aligns with investor preferences, and then a final stage to build a more detailed project profile with supporting information that investors are likely to require.

DIT has an in-depth knowledge of the international investor landscape and is able to target investors who are looking at specific shapes of investment return.

Projects that are then approved are promoted with foreign investors through both DIT's international network and with inclusion in national material in both online and offline pitch-books, and advice on marketing at international events such as MIPIM international property event held in France each year.

There are also other sources of foreign investment to emerge in recent years, such as the providers of Forward-Starting Loans – loans where the amount of loan and the interest rate (typically fixed) is agreed up-front with a predetermined drawdown date.

<sup>14</sup> [www.great.gov.uk/](http://www.great.gov.uk/)

## **Case study: Barnsley Metropolitan Borough Council**

### **Project: Forward Starting Loans**

Barnsley Metropolitan Borough Council, has secured a £20 million forward starting loan<sup>15</sup> from pbb Deutsche Pfandbriefbank to help fund future spending – particularly on capital projects. Funds will be drawn down in 2020 whilst repayments will be made over a 27 ½ year period and according to a pre-agreed, fixed rate of interest.

#### **Key learning:**

Forward Starting Loans enable councils to fix interest rates and project finance years before development begins reducing interest rate risk and adding certainty to project returns.

---

<sup>15</sup> [www.room151.co.uk/treasury/barnsley-becomes-second-authority-to-sign-forward-loan-deal/](http://www.room151.co.uk/treasury/barnsley-becomes-second-authority-to-sign-forward-loan-deal/)

# Practical guidance for attracting private and foreign investment into local infrastructure

## The role of councils in providing infrastructure

Councils often lead the delivery of local infrastructure improvements and are specifically tasked to provide sufficient infrastructure to support local plans. Councils also plan and invest strategically to support local economic strategies, and to unlock local housing and employment opportunities. They negotiate agreements with property developers to gain contributions (through Section 106 agreements) to local infrastructure, including road building and social infrastructure such as schools and community facilities. Councils integrate their infrastructure planning and investments with unique features of the area driven by national infrastructure upgrades such as major new rail investments (such as HS2) or major transport gateways such as airports.

Although councils have had limited transport powers over recent decades, this is changing and there are examples of councils – working individually or together – increasing their powers, responsibilities and control over resources for transport – through passenger transport executives, or through the recent establishment of combined authorities and Subnational Transport Bodies. These new bodies have responsibility for planning and prioritising long term transport investment, approving road and rail investment decisions, and in some cases making capital grant awards.

Some councils are also commercial property owners and developers – of office, industrial and retail premises which they lease out, with the revenues contributing towards council finances. Councils also own and rent social housing – with their role in this set to increase in importance as restrictions on them borrowing against their social housing revenues have been lifted.

Attracting private investment both UK and FCI is increasingly an option for councils to deliver vital infrastructure to unlock local plans. For the best chance of attracting this globally mobile finance it is important to understand the **Why? How? When? Who?**

## WHY? Why would someone invest in your locality?

This is the critical factor that investors look for.

Investors will compare investment opportunities on a global basis. Whilst there is little apparent shortage of global finance for investment, investors must have confidence and trust in the investment, the public sector partners, and the local business, economic and social environment.

For an investor to regard a local investment opportunity as a serious proposition, they must have trust in the governance and capability of the council concerned. This can be demonstrated by leadership, local vision, political stability and access to managerial and technical capability and capacity. The investment period is almost certain to last more than one election cycle and investors need confidence in the durability of the vision for the duration of the investment.

The nature of the proposed infrastructure project and ownership of the land/property is also important in securing investor interest. If the infrastructure project is clearly linked to a local policy or strategy, supports strategic sites, or enables significant transformation of the economy – this gives the proposition a lot more credibility. A willingness to co-invest by the council also signals serious commitment.

Knowledge of the users and beneficiaries of the infrastructure, once complete, is also important as this will inform the potential payback for the investment, and will give external investors more detail on revenues and project feasibility. If the project is to deliver property, and tenants have been identified or have committed to the project – this also helps prove the economic and commercial feasibility of the project.

Private investors are only interested in commercial propositions so there needs to be a credible account of how the infrastructure or capital development will pay back the terms of the finance (such as interest and principal). Because investors typically specialise in the types in infrastructure they support, they will be adept at identifying early on the feasibility and attractiveness of an investment opportunity. They may be willing to help to optimise the development and will help to further refine and build a detailed business case with you as part of the next steps. It is useful to have a realistic appreciation of the commercial returns typically expected to private investors for such projects. Putting an unrealistic return on an investment is likely to put them off.

In summary, if approaching private investors, including foreign investors, they will normally require proof of land ownership or control, outline planning approval, and feasibility analysis. Contingencies such as road access or other infrastructural access to sites will also need to be resolved. A site ready for construction – “shovel ready” – also provides greater confidence that target returns will be achieved through greater cost certainty and reduced risk of delay. Funding contributions for other government programmes or sources also help to provide greater confidence.

## Top-tip: developing investor trust – leadership and capability

Leadership, local vision, political stability and (access to) capability and capacity, can be demonstrated by:

- **senior representation** (leader and CEO) at initial meetings with investors are critical to signalling the importance of the infrastructure project and investment
- **cabinet/committee support** for the infrastructure investment, and clarity that this will continue beyond the next election cycle
- **part of a local strategy** – the infrastructure project is clearly part of existing local strategies, local plans, and identified strategic sites
- **council ownership of the land or property asset**, or an agreed path to council ownership is vital
- **transformative potential** of the infrastructure project – eg energy plant in Bristol, new rail link in Luton, BBC and/or council anchor tenant
- **planning permission** – the project meets the designated land use permissions in a Local Plan, or planning permission has been gained
- **co-investment** – if the council has a financial interest in the project this can signal commitment to another co-investor
- **route to cover funding shortfalls** – is there line of sight on grant (eg HIF) applications
- **local sustainability** – the project contributes to environmental and social sustainability.

## HOW? How do you make the commercial model work?

Councils have a track record in accessing private finance to invest in infrastructure, and there are eight main methods that they use to do this:

- **Capital loans** provide loan funds, or investment capital for infrastructure or other developments that will be paid back over time. This is debt finance and tends to be passive.
- **Managed assets** are where an asset is purchased, built and managed on behalf of public sector: to provide investment capital into a special purpose vehicle that builds and manages a public asset, and they are paid back their investment plus a return over time.
- **Direct investment** into plots of land, buildings or other assets that are part of a regeneration programme or investment framework.

## Case study: Luton Council/J2 Global Corporation Limited

### Project: Direct Investment

As part of the £1.5 billion Luton Investment Framework<sup>16</sup>, the 'J2 Global' managed Napier Quarter site has attracted £300 million from investors to regenerate and transform the old Vauxhall site into a leisure and residential hub. The Napier Quarter will encompass residential, housing, retail and leisure developments along with a medical centre, landscaping and a landmark tower building.

**“We are especially delighted that nearly one tenth of accommodation to be built on this brownfield site will be for social housing, underlining our commitment to tackle the housing crisis facing so much of the country.”**

#### Key learning:

The Luton investment Framework set out an ambitious vision for the area across multiple sites. Working closely with investors allowed the council to specify areas of social and economic infrastructure that needed to be included.

- **Lending to or shareholding in public commercial** organisation provides capital for investment as part of a council owned asset or service that operates commercially to provide delivery efficiencies or increase return.

## Case study: Manchester Airports Group Plc (M.A.G)

### Project: Lending to shareholding in PCO

Manchester Airports Group Plc (M.A.G) operates three airports - Manchester, London Stansted and East Midlands, and serves around 42 million passengers every year. It is the country's largest UK-owned airport operator with majority ownership (64.5 per cent) held by the ten councils of Greater Manchester and Manchester City Council in particular (35.5 per cent).

Though originally wholly owned by the public sector, private investment was sought in 2012 to provide extra capital for future investment and takeovers of airports ie Stanstead and in 2013, IFM Investors purchased a 35.5 per cent share in the group.

#### Key learning:

Private investment into existing council owned assets can free up money for wider investments or service improvement initiatives.

- **Developer contributions to public infrastructures** are often made by private developers via Section 106 contributions as part of the planning process. Examples include: primary schools, broadband, spur roads.
- **Development partners** can be sought and appointed to design, construct, build and seek end users or tenants in partnership with a council.
- **A franchised operator** is when a private company is contracted to provide services on a publicly owned asset – such as a railway line.

<sup>16</sup> [www.luton.gov.uk/business/lif/Pages/Luton-Investment-Framework.aspx](http://www.luton.gov.uk/business/lif/Pages/Luton-Investment-Framework.aspx)

## Case study: Merseyrail

### Project: A franchised operator

The Merseyrail network has 68 stations and 75 miles of route and carries around 34 million passengers per year. The network is operated by a joint venture between Serco and Abellio under a franchise contract spanning 25 years which is due to expire in 2028.

Using a franchise model allows services to be delivered in the short term by specialist service providers and investors, whilst ultimate ownership remains public.

#### Key learning:

This connection with the public sector has enabled integration with/enhancement of other services ie with Merseytravel's City Region-wide pass system, which also encompasses the Mersey Ferries and city and regional bus networks and the Walrus smartcard.

- **Revenue management services** are where a private company is contracted to collect revenues for public use of infrastructure, such as parking, roads, bridges and tunnels. The private company providing upfront investment in the infrastructure allowing them to collect revenue.

## Top-tip:

### Building a robust commercial model

Different investors prefer different types of commercial models. Understanding the investor landscape and the type of investments they undertake will help you find the most appropriate investor.

Knowing the key features of your investment will lead you to the appropriate investor pool:

- **Investment and return period:** is it a short term opportunity for capital re-sale or a longer term opportunity with 20+ year revenue streams?
- **Income generation:** what are the income streams or revenue mechanisms eg rent, service delivery payment schemes from council, capital sale?
- **Ownership and control:** are you looking to keep control of the asset via debt funding, franchising or happy to share the risk/reward via an equity model?
- **Risk profiles:** what is the risk profile of the project? What is your risk tolerance?
- **Project size:** is it under £100 million Gross Development Value? FCI is unlikely to be the route. Can you bundle multiple sites to get to critical mass?

## WHEN? When should you talk to potential investors?

There are many suitable points in any development process to bring in investors. Much of this will depend on the skills and capabilities available within the council. As a general point of guidance the less internal resources available the earlier to consider bringing an investment partner in.

For an infrastructure project it is important to understand the main processes of planning and delivery, and when it is appropriate to involve private investors. Typical stages might be:

### **I. Investment planning: providing a solution to identified needs**

An investment in infrastructure provides social and economic benefits. Due to the cost and longevity of infrastructure, the proposals need to make the economic and business case for these, and propose a long-term solution. The evidence and understanding that has led to the social and economic needs and benefits being identified, with new or additional infrastructure being proposed as the solution – usually is part of an overall strategy or policy.

For councils, this strategy or policy could be local planning policy, or a local infrastructure or transport strategy. Or it could be part of an economic strategy or strategic housing market assessment. The challenges of infrastructure provision are often that the benefits are long-term and will only be realised after a sizeable investment. Once a formal commitment is made to seek an infrastructural solution to a need or problem, the potential delivery options are identified, and a concept design or plan is put together.

Involving prospective investors at this stage can be helpful as they may provide capacity and expertise to help identify solutions, delivery models and likely costs. Or it can be a way of sounding out the market to see if private finance is suitable or viable for your particular project. Feedback from private investors may be particularly useful if the type of infrastructure is of a scale or complexity that lies outside the capability of the council to deliver on its own. Alternatively, expert support and advice can be accessed through commercial consultancy or government-supported sources such as local partnerships. If potential investors are involved at this stage it is important that they have a track record and interest in the size, type of project, timescale and type of financial vehicle or return that is envisaged. If you do not have a good understanding of the investor market then it is an idea to speak to agents or learn from other councils or DIT.

### **II. Project planning and specification**

This stage involves the detailed specification of needs and strategic objectives, planning for project delivery, identifying resources and finances, appointing a lead delivery body or team, project governance, setting out procurement options, and tendering the project out or putting the project out into the market as an investment proposition.

Major infrastructure projects require a detailed feasibility appraisal and a full financial appraisal, covering funding sources, cashflow forecast, revenue and future budget implications. Expected external finance contributions, whether from public or private sources, will need to be detailed.

It is important that you are able to bring sufficient resources, capacity and capability to this stage of the project. One of the advantages of working with investors is the strength of support they can offer.



Involving prospective investors at this stage is crucial because this is the main stage for securing investment commitments to infrastructure projects. If the council is seeking a development partner to co-invest in a regeneration area, or business park – this is also a vital stage in which to advertise for interested developers and financiers to make their proposals. Councils may borrow from any willing lender including banks, other councils or principal authorities, public trusts and foundations (eg Playing Fields Associations, Natural England). The council then needs to obtain a borrowing approval from MHCLG – which includes a requirement for prior consultation with electors/residents as a pre-condition of borrowing approval. MHCLG will send the council a borrowing approval letter which will set out a number of conditions that need to be fulfilled and specify how much the council can borrow, and the maximum term of the loan period. Using external equity investments can be an alternative to borrowing (debt finance).

There are a wider variety of options now available including a full tendering process where the developer might bring finance, PWLB, Homes England and other grant funding. It will also allow priority inclusion in pitchbooks (subject to certain size restrictions) supported by DIT. Other ways of engaging investors may be more open at this stage of the process, allowing investors to bring a variety of ideas forward.

## **Case study: Bristol Council**

### **Project: Openly engaging with Investors**

Bristol City Council (together with partners from the public and private sector) has launched the City Leap Prospectus with the aim of attracting up to £1 billion of low carbon and smart energy infrastructure investment over the next ten years. The council has taken a soft market testing approach with City Leap – advertising the programme in a concise format, openly on the web and inviting broad expressions of interest (EOIs) from any interested parties – the aim being to gather a large amount of varied responses at the early stages of the programme, which can subsequently be evaluated and filtered down by the project partners. The council has now completed a detailed options appraisal and formed a recommendation on the type of energy partnership that will deliver on Bristol's carbon neutral ambitions.

#### **Key learning:**

Councils do not have to be overly prescriptive when seeking investment partners, by staging the application process and courting different approaches more innovative and financially beneficial input may arise.

### III. Procurement and construction

This stage involves putting together a detailed set of proposals and procedures in place to approach the market with a detailed definition of requirements and conditions. Once a preferred supplier is found, the contract management and delivery phase begins.

The organisation that does the procurement could be a council, which is backed by external finance, or it could be a private sector organisation which has agreed to manage the design and build of a project in return for a revenue stream, or repayment schedule.

The requirements to follow procurement frameworks will vary dependent on the exact structure of the commissioning body.

Engagement with investors at this stage will be mostly about monitoring their performance, and compliance with council's contractually agreed terms – whether this is by the councils repayments to a private investor, or the investor's management of an asset or revenue stream, if that is the finance vehicle being used.

#### Top-tip:

#### When should you onboard investors

Investors can be brought into your project at various stages and through a variety of mechanisms.

- **Passive or Active Investors.**
  - **Active Investors** can bring ideas to optimise the project for your KPIs and expertise to turn it into reality. Getting them involved early can cover a lack of capacity, experience or capability internally.
  - **Passive Investors** tend to provide investment only eg much FCI, and many public sector sources.
- **Different stages suit different investors:** There might be different investors involved at different stages of the infrastructure delivery.
- **Procurement:** There is no need to go through complex procurement processes, such as OJEU, if you are looking for investors (as you would delivery partners). You can satisfy value for money requirements via alternative methods. This is a complex area and specialist advice should be sought.
- **Clarity of process:** You should be clear with investors your engagement process from the outset. Investors value their time more than anything else, you get one chance.

## WHO? Who should be involved in the process?

To successfully deliver an infrastructure project, there are a range of skills, capabilities, resources and stakeholders that need to be involved and coordinated.

A single council, or a group of them are critical to drive the early stages of the infrastructure project, identifying the infrastructure needs and benefits and the solutions options. As well as the council Leader and CEO, this is likely to involve the corporate office, project management office, finance department, councillors (and appropriate committees) as well as specialist teams such as economic development, transport and housing.

Some areas have local expert advisors, who act as honest brokers to develop project ideas, have commercial knowledge about the property market and development process. These can range from non-profit organisations such as Cheltenham Development Trust, to private consultancy services such as commercial property agents, property development companies, infrastructure delivery specialists, and project managers. Expert advisors can help to shape a project's specifications, advise on commercial feasibility, sources of finance, and can also make introductions to relevant development partners or investors. Homes England maintain a specialist panel of experts that can be accessed on housing led projects.<sup>17</sup>

Subnational organisations have played a significant role in recent years in advocacy and campaigning for local infrastructure prioritisation and investment. Organisations such as the Northern Powerhouse and Midlands Engine provide this advocacy role within a wider strategic rationale, and economic growth narrative. For larger infrastructure investments where the benefits cross multiple council areas, they can be useful partners and provide increased credibility.

<sup>17</sup> [www.gov.uk/guidance/technical-panels](http://www.gov.uk/guidance/technical-panels)

In particular, the transport initiatives of the Northern Powerhouse and Midlands Engine – Transport for the North and Midlands Connect respectively have provided a powerful voice and leverage for increased investment in local transport infrastructure.

### Who should be involved in the process?

To successfully get investment for an infrastructure project, there are a range of skills, capabilities, resources and stakeholders that need to be involved and coordinated. Documentation from the Infrastructure and Projects Authority gives some great ideas of the breadth and depth of the team involved.

Key partners might include:

- **other councils** who can advise you what worked, the LGA is a useful conduit
- **expert advisors and commercial property agents** who can steer you to appropriate investors and advise you on costs
- **subnational organisations and transport bodies** who can link to other local investment opportunities or build commercial models over a wider area.

Specialist public sector resources are available in specific circumstances:

- **Department of International Trade:** Over £100 million Gross Development Value? DIT have resources and expertise to make your proposition attractive to investors and link you to the most appropriate international ones. Significant projects typically take a minimum of three years from initial conversations to investment.
- **Homes England:** Housing led development? Homes England Technical and Property Panels are pre-approved experts you can commission to help.

# Conclusion

Infrastructure plays a critical role supporting local communities and the local economy. Infrastructure can unlock an area's transformational potential, enable residents to access new education, skills, and work opportunities, support local retail and business areas, and increase the viability of new sites for homes and businesses.

In the Infrastructure Finance Review Consultation Paper issued by HM Treasury in March 2019, it was highlighted that at least £300 billion of the projected infrastructure investment pipeline for the next 10 years will come from foreign and private capital investment.

New roles and powers for local government have emerged in recent years which make it more viable to access up-front investment for infrastructure that can be repaid or serviced by revenue streams from taxes, services, infrastructure use or enhanced land values.

For the right project, these sources of finance are virtually unlimited, rapidly deployable and can come with the experience and expertise to support delivery. It is a complex landscape; understanding the Why? How? When? Who? is essential for success.

- **Why?** Demonstrate why the infrastructure is important to you and that you will deliver.
- **How?** How does the investment work and fit with the investor's risk/reward model? Is the investment above the minimum threshold (>£100 million for FCI).
- **When?** Could the additional support from early engagement with an 'Active' investor help get the most out of an investment?
- **Who?** Have you engaged and partnered with the right people to reach and reassure the investors?

# Further contacts for advice and support

## **Local Government Association**

[www.local.gov.uk](http://www.local.gov.uk)

## **Department for International Trade - Capital Investment team**

[www.gov.uk/government/publications/uk-capital-investment/uk-capital-investment](http://www.gov.uk/government/publications/uk-capital-investment/uk-capital-investment)

## **The Infrastructure and Projects Authority**

Project Initiation Guidance

[www.gov.uk/government/publications/improving-infrastructure-delivery-project-initiation-routemap](http://www.gov.uk/government/publications/improving-infrastructure-delivery-project-initiation-routemap)

## **National Infrastructure and Construction Pipeline**

[www.gov.uk/government/publications/national-infrastructure-and-construction-pipeline-2018](http://www.gov.uk/government/publications/national-infrastructure-and-construction-pipeline-2018)

## **Homes England**

[www.gov.uk/guidance/technical-panels](http://www.gov.uk/guidance/technical-panels)

## **HM Treasury Green Book and Business Case Guidance**

[www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government](http://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government)

# Glossary

**Active investors** will want a hands-on role, providing experience and expertise to shape the project.

**Additional business rates retention** represent the new business rates that may arise from new business activities that result from an infrastructural investment.

**Basis points (BPS)** are a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01 per cent.

**City deals** are agreements between cities and city-regions, to provide advanced funding for infrastructure which will be repaid by additional business rates retention.

**Economic Infrastructure** - the 'hard infrastructure' that provides transport, energy supplies, flood protection, water supplies and waste treatment, telecommunications and digital networks.

**Equity** is the provision of funds in return for an ownership share of a company or asset.

**Foreign Capital Investment (FCI)** is a particular source of private investment, which has been successfully used in the past for appropriate infrastructure projects as it typically invests large sums, over long time periods, at stable interest rates to enable the development on infrastructure. It excludes the secondary purchase of existing assets for the purpose of income generation.

**Foreign Direct Investment (FDI)** refers to investment into business interests.

**Gilts** are bonds that are issued by the British government, and they are generally considered low-risk investments.

**Government grants** are public subsidies or finance awards offered to a recipient for public or private purposes that are not expected to be paid back.

**Gross Development Value (GDV)** A calculation of what a development property should be worth on the open market.

**Infrastructure** is the basic physical and organisational structures and facilities (eg buildings, roads, power supplies) needed for the operation of a society or enterprise. In this report, we divide infrastructure into two types: economic infrastructure and social infrastructure.

**Internal Rate of Return (IRR)** is a measure of an investment's rate of return.

**Land Value Capture** Major transport investment can significantly increase the value of land, particularly if it is close to a train station or transport hub. Land value capture is a term used to describe the use of this increase in land value to fund investment in public services, such as transport.

**Loans/ Debt Funding** are the provision of funds for an expected return, such as interest payments, and the return of the principal (initial sum) lent.

**Local Government Pension Schemes (LGPS)** Specialist pension schemes for local government workers. Recent freedoms have allowed local government pension schemes to invest for the benefit of local areas.

**Managed assets** are where an asset is purchased, built and managed on behalf of public sector.

**Municipal bonds** are a form of debt finance for local government, where private investors purchase shares in the bond.

**Passive Investor** tend to provide finance only, though will likely want to be involved in governance, particularly for significant projects.

**Payback mechanism** typically returns are made by generating revenues or income streams from an asset or service, or result from the sale of the asset.

**Payback Period** the length of time required for an investment to recover its initial outlay in terms of profits or savings.

**Pension Funds** is any plan, fund, or scheme which provides retirement income. Pension funds typically have large amounts of money to invest over a mix of timescales and yields.

**Private investment and capital** is the provision of finance from private institutions, businesses, and organisations, commonly on a commercial basis that expects a financial return such as fees or interest payments.

**Private Finance Initiative (PFI)** is a mechanism by which the private sector can invest in a public asset – usually to plan, construct and manage it on the government's behalf.

**Public Works Loan Board (PWLB)** is a government department that makes available loan finance to public authorities and councils.

**Revenues from assets and services** are the income streams derived from user charges for the use of an asset or the operation of a service in an asset.

**Section 106 (S106) Agreements** are legal agreements between councils and developers They compel the developer to make a financial contribution towards, or provide improvements to mitigate against the impacts of the development.

**Social Infrastructure** that provides the environment and buildings for social and market activities to take place, and for the public to access services and interact – and includes facilities such as schools, universities, hospitals, care homes, social housing, private housing, business parks, industrial parks, science parks and retail sites and premises.

**Sovereign wealth fund (SWF)** or sovereign investment fund is a state-owned investment fund that invests in real and financial assets.

**State-owned enterprise (SOE)** is a legal entity that is created by a government in order to partake in commercial activities on the government's behalf. It can be either wholly or partially owned by a government and is typically earmarked to participate in specific commercial activities.

**Tax revenue** is defined as the revenues collected from taxes on income and profits, social security contributions, taxes levied on goods and services, payroll taxes, taxes on the ownership and transfer of property, and other taxes.

**Yield** refers to the earnings generated and realised on an investment over a particular period of time, and is expressed in terms of percentage based on the invested amount.



**Local Government Association**

18 Smith Square  
London SW1P 3HZ

Telephone 020 7664 3000

Email [info@local.gov.uk](mailto:info@local.gov.uk)

[www.local.gov.uk](http://www.local.gov.uk)

In association with:



Department for  
International Trade

© Local Government Association, October 2019

For a copy in Braille, larger print or audio,  
please contact us on 020 7664 3000.  
We consider requests on an individual basis.

REF 5.54