

WG's capital funding sources - MIM

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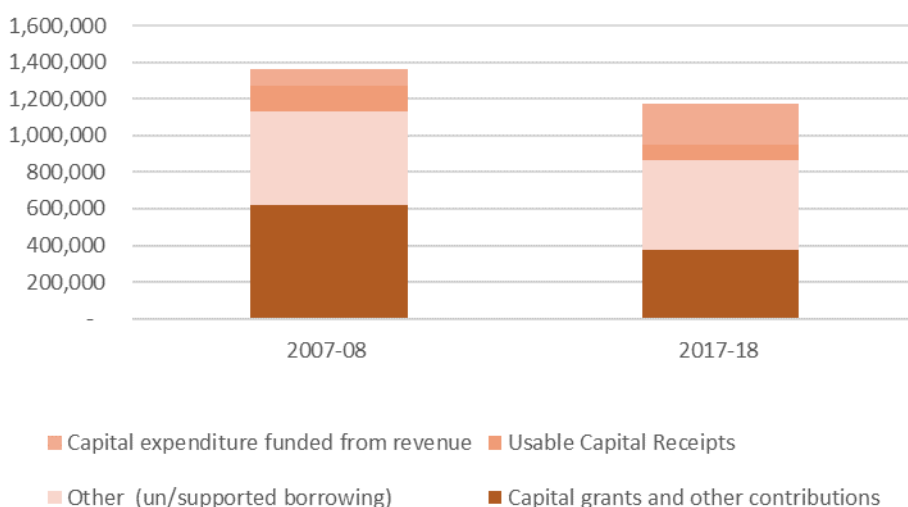
Introduction

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales. The three national park authorities and the three fire and rescue authorities are associate members.
2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.
3. The WLGA is pleased to be able to respond to the Committee's Inquiry into Welsh Government's Capital Funding Sources and the Committee Clerk has asked us to specifically comment on the Mutual Investment Model (MIM). We have consulted the Society of Welsh Treasurers and the Association of Directors of Education in Wales as part of our response. Individual local authorities may submit their own responses reflecting their own views.

Overview of capital funding and spending for local government

4. We would refer the committee to evidence submitted to a previous inquiry launched by in 2012 around capital funding. One point we repeatedly make is that local government enjoys considerable freedoms to borrow and more could be made of this to fund local infrastructure.
5. The benefit of this kind of partnership working has seen successful and sustained investment through both the Highways Borrowing Initiative and the 21st Century Schools Programme. Both of these schemes have involved Welsh Government providing funding (in terms of capital grant and/or debt financing) alongside local government contributions.
6. If any borrowing has to be done, local government has done that in one of two ways: it has borrowed internally (from balances) or it has borrowed externally (from the public works loan board – PWLB).
7. Sustained additional funding, especially in the education sector, has been possible despite a drop in overall capital expenditure by local government. Figure 1 below shows Local Government capital expenditure has fallen by 14% over a ten-year period from £1.36bn to £1.74bn.

Figure 1 Local Authority Capital Expenditure by funding source, 2007-08 to 2017-18, £



Source: StatsWales & HMT (GDP Deflators)

8. There is a mixed picture depending on the source of funding. Funding from grant sources falling away by around 40% in real terms. This is the same rate of reduction from capital receipts as the value of disposals has plummeted over the period of austerity. Capital spend funded from revenue is the only source of funding that has increased, appreciating nearly 140% over a ten-year period.
9. Financing from 'other' sources mostly remained the same after adjusting for inflation. This mostly covers supported and unsupported borrowing, as well as the Major Repairs Allowance for housing spend. From a local government perspective, 'unsupported' means that the funding has to be found by the local authority. While externally supported borrowing has reduced by 49%, unsupported borrowing has risen by around 72% in real terms, over the same period.
10. While the sources of capital funding are complex, one of the most significant conclusions from analysing the data is that spending on education capital has almost doubled. Even taking account of inflation spending has increased by 90% after taking account of inflation. The first band of the 21st Century Schools Programme has been a successful partnership, especially set against nearly 10 years of reducing budgets.
11. However, councils are required to develop and approve long term capital strategies. With a significant element of grant funding being in the form of WG grants. The view of many of the officers involved in capital planning is that the current approach to annual allocations are not conducive to longer term planning and securing value for

money. Whilst grants for expenditure such as roads and school buildings are welcome, the deteriorating condition of assets requires sustained levels of investment (rather than periodic one-off amounts late in the year). This also applies to rent policy in terms of Housing Revenues Account borrowing. A more strategic approach has been requested by local government officers who sit on the joint Welsh Government-Local Government's Capital Finance and Investment Group.

Capital Funding and Mutual Investment Model (MIM)

12. As the representative body for local government we have welcomed the announcement of next phase of 21st Century Schools for which a large proportion of the funding will come from the MIM model. The basic framework is similar to the Scottish "Non-Profit Distributing" (NPD) Model Form Project Agreement which itself is based on a Department of Health model dating from the late 2000s.
13. Although the MIM is a major part of the Schools Programme is also being used to finance the dualling of the A465 from Dowlais Top to Hirwaun and the new Velindre Cancer Centre in Cardiff and a significant tranche of the next phase of the 21st Century Schools Programme.
14. While we have no specific information about how many authorities are actively considering MIM funding as part of their Band B 21st Century Schools submissions, it is certainly being given serious consideration by many. The increase in the intervention rate from 75% to 81% is also helping to make it more attractive
15. Inevitably comparisons have been made to PFI arrangements and we certainly are picking up concerns from many elected members and senior officers around this. They know that local government can borrow at significantly lower rates than any organisation in a commercial environment. The Welsh Government suggests that lessons learnt from historical PFI schemes will be applied to MIM to ensure all potential Authority issues and concerns are addressed at a very early stage of the MIM project. The latest assurance was set out by the current Finance Minister in Plenary session to the National Assembly in February this year:

"From the outset, our intention has always been to ensure that the Mutual Investment Model promotes the public interest in the widest possible definition of that term. To that end, the model will deliver positive, additional outcomes in relation to wellbeing, value for money, and transparency; and in so doing will avoid many of the criticisms

levied at historic forms of public-private partnership – in some cases, criticisms that the Welsh Government was among the first to raise.”

16. Furthermore, contract management and the level of expertise required across a number of areas has been a challenge in the past. As Committee Members are aware, the MIM scheme proposes a central contract management team within the Welsh Government to support local authorities with this function.
17. One of the main drawbacks is a similar to the more generalised concern set out in paragraph 11. Local Government is committing future revenue resources into current day capital spend and without any assurance on the longer term funding arrangements. It does raise a potential scenario where local authorities may be struggling to find the money to run them as paying the capital charges (or equivalent for MIM) will take precedence.
18. Overall there has been good engagement with the Programme Directors and other senior civil servants responsible for 21st Century Schools Programme. There have been offers to deliver presentations to elected members around the benefits of MIM, the differences with PFI, and more technical engagement with Society of Welsh Treasurers. Continued engagement through the WLGA’s membership of the 21st Century Schools Programme Board has been good.

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