Governing ‘new’ infrastructure financing

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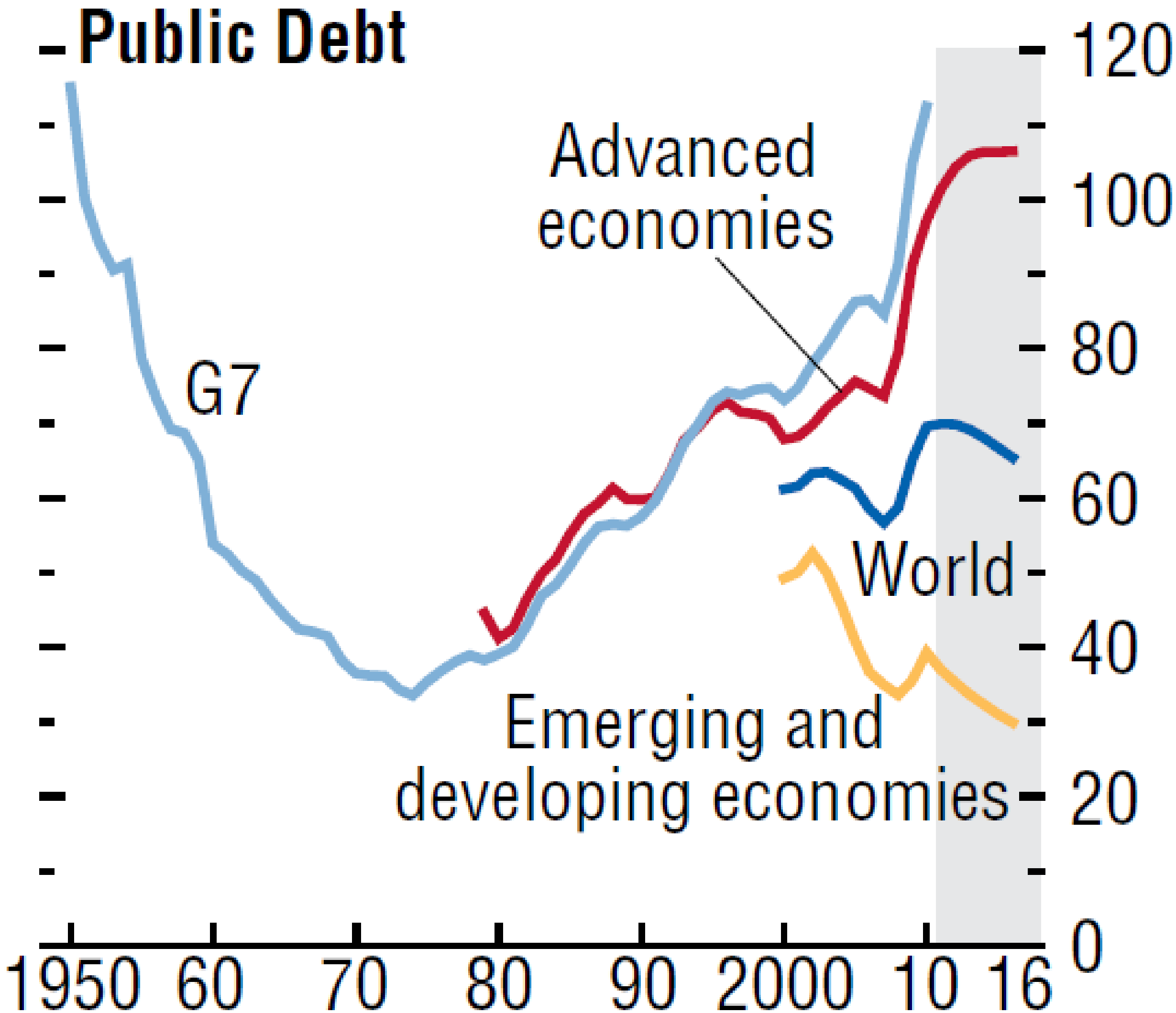
Governing ‘new’ infrastructure financing

- Introduction
- The changing context
- Infrastructure as an ‘asset class’
- City Deals in England
- Conclusions

The changing context

- Rising infrastructural development and renewal demands
- Economic crisis and state indebtedness
- Austerity and fiscal consolidation
- Infrastructure investment for economic growth, recovery and competitiveness
- The search for new public and private funding and financing models
- 'Financialisation' of infrastructure: new actors and practices

Public debt as % of GDP, 1950-2010



Source: IMF (2011) <u>World Economic Outlook</u>, IMF: Washington

Infrastructure investment for economic growth, recovery and competitiveness

"We've focused the Government's capital spending on infrastructure, taken steps to stimulate private investment and unblocked delivery problems. But now we need a long-term strategic plan to deal with these challenges over the next decade…We are in a global race, competing with countries like China and India – countries which understand the importance of modern infrastructure to a thriving economy and are investing billions in updating everything from their road networks, to intercity railway lines and power stations" (George Osborne and Danny Alexander, Foreword, HMT 2013: 13)

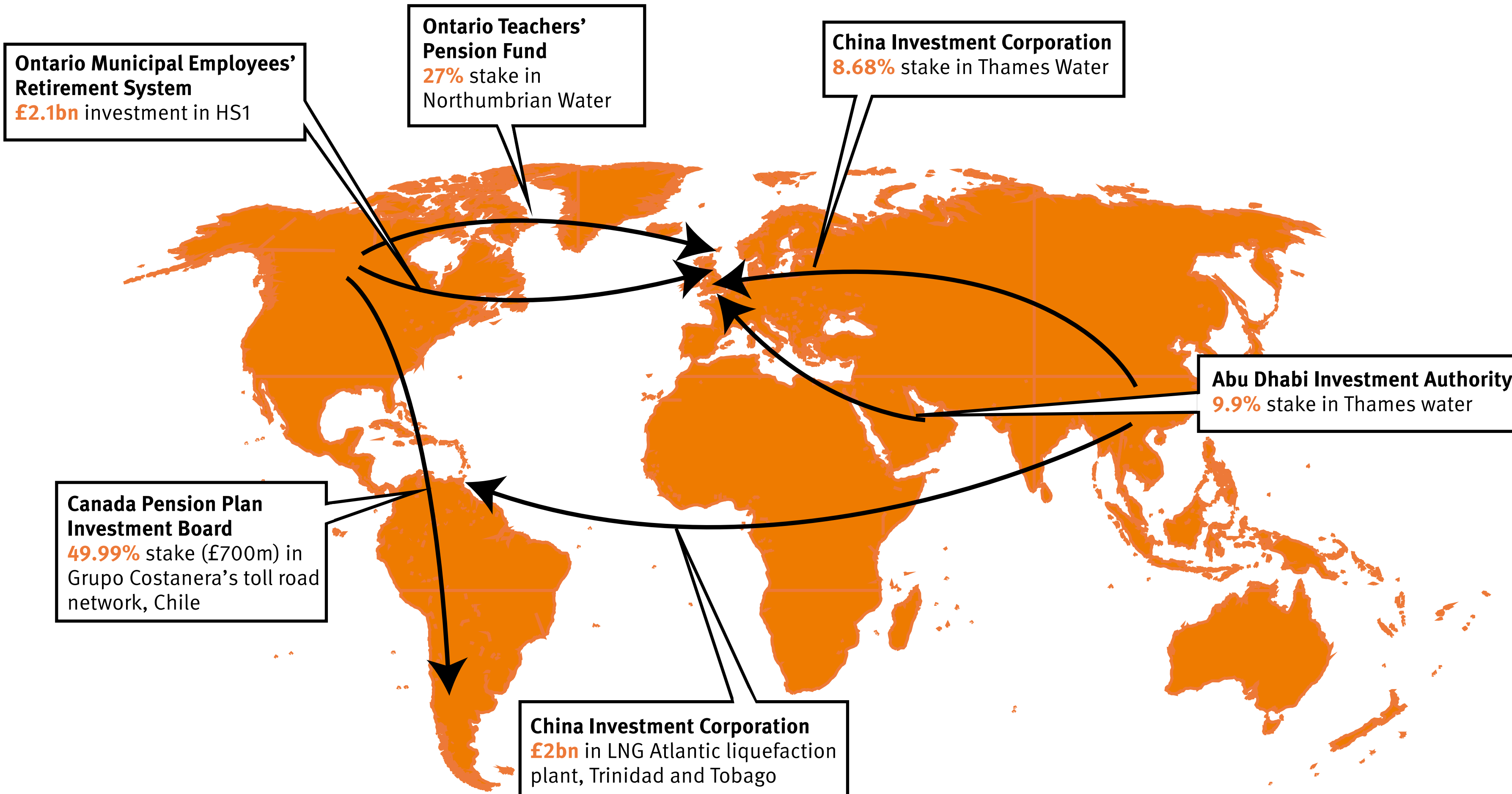

HM Treasury

Investing in Britain's future

Cm 8669

June 2013

Worldwide pension fund and sovereign wealth fund investment in infrastructure



Source: CBI (2011: 33) An Offer They Shouldn't Refuse: Attracting Investment to UK Infrastructure , CBI: London.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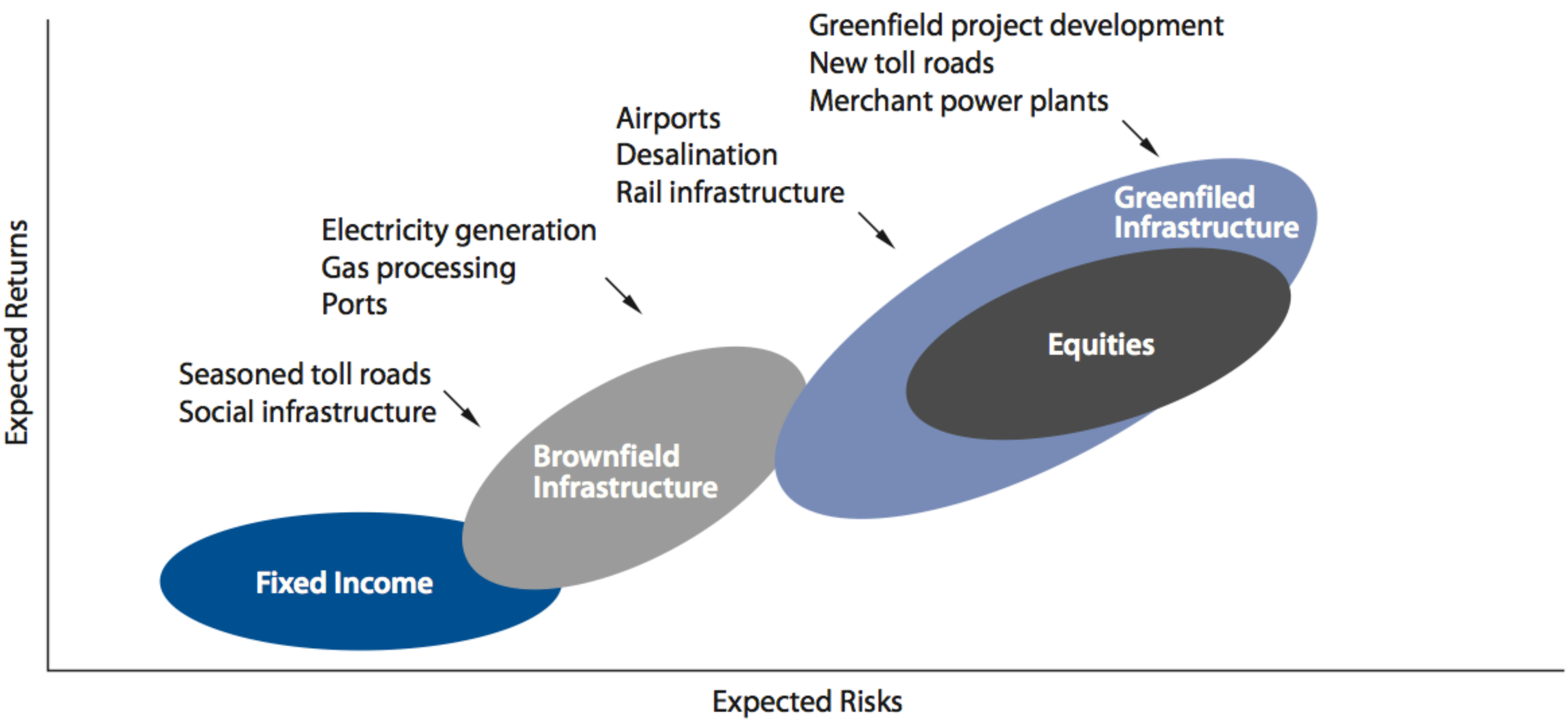
Infrastructure as an 'Asset Class'

- Essential services for populations and businesses relating to physical flows (i.e. transport, energy, broadband) or to social goods (education, healthcare)
- Government as a direct client (via fixed term concession), highly proximate to the transaction (through economic regulation) and/or guarantor
- Long term and able to support high leverage
- Stable and predictable cash flows
- Attractive and less volatile returns
- Low sensitivity to swings in business cycles and markets
- Good inflation hedge
- Low default rates
- Natural monopolies, either due to network characteristics/capital intensity or government policy
- Generally low technological risk

Source: Adapted from Inderst, G. (2010) "Infrastructure as an asset class", <u>EIB Papers</u>, 15, 1, 70-104

Variation in risk-return profiles for infrastructure investments



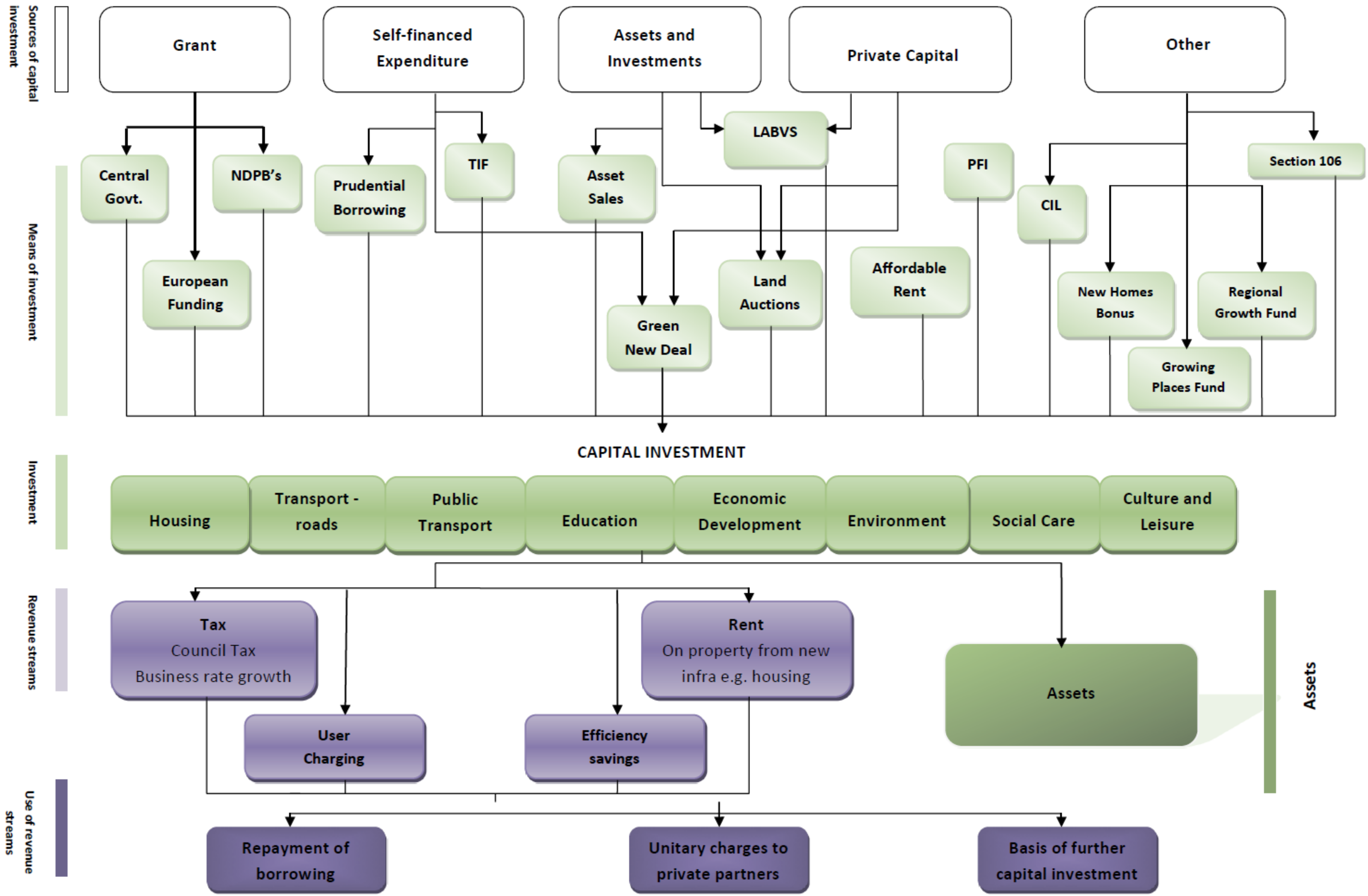
Source: Credit Suisse Asset Management cited in Inderst, G. (2010) "Infrastructure as an asset class", EIB Papers, 15, 1, 70-104

Funding and Financing Practices

Source: Adapted from Strickland, T. (2014) The financialisation infrastructure funding and financing in the UK and the US, CURDS: Newcastle University.

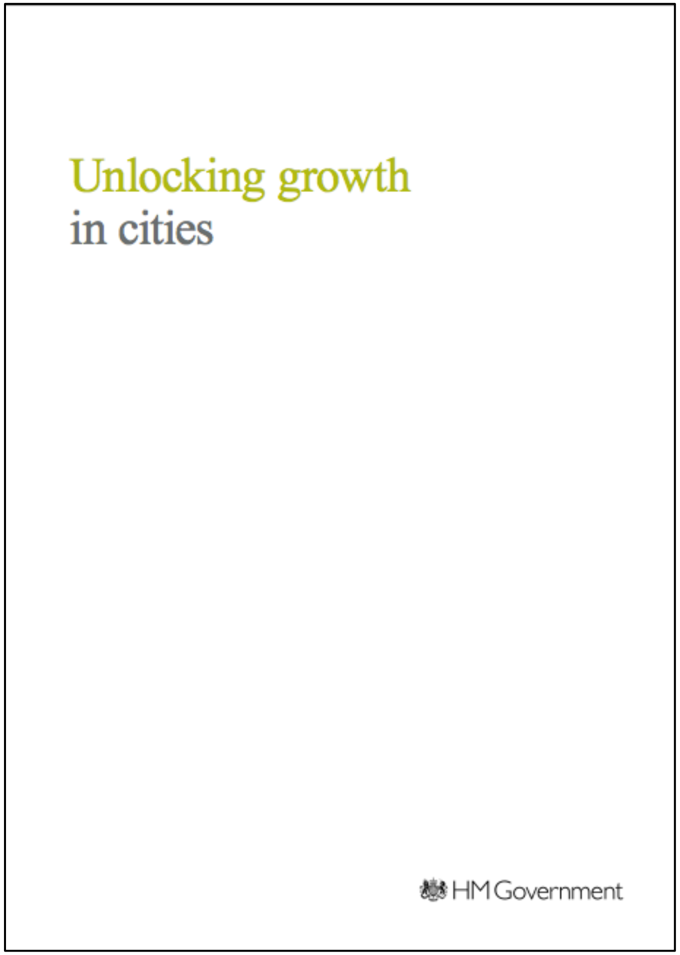
Temporality	Type	Examples
Established, 'Tried and tested'	Taxes and fees	Special assessments; User fees and tolls; Other taxes.
	Grants	Extensive range of grant programmes at multiple levels (e.g. federal national, province, state, supranational)
	Debt finance	General obligation bonds; Revenue bonds; Conduit bonds.
	Tax incentives	New market/historic/housing tax credits; Tax credit bonds; Property tax relief; Enterprise Zones.
	Developer fees	Impact fees; Infrastructure levies.
	Platforms for institutional investors	Pension infrastructure platforms; State infrastructure banks; Regional infrastructure companies; Real estate investment trusts.
	Value capture mechanisms	Tax increment financing; Special assessment districts; Sales tax financing; Infrastructure financing districts; Community facilities districts; Accelerated development zones.
	Public private partnerships	Private finance initiative; Build-(own)-operate-(transfer); Build-lease-transfer; Design-build-operate-transfer.
	Asset leverage and leasing mechanisms	Asset leasing; Institutional lease model; Local asset-backed vehicles.
Newer, 'Innovative'	Revolving infrastructure funds	Infrastructure trusts; "Earn Back" funds.

The emergent capital finance landscape in the UK



Source: Adapted from Symons, T. (2011: 33) Capital Futures, Local Capital Finance Options in an Age of Recovery, New Local Government Network: London.

City Deals in England


Unlocking growth
in cities

HM Government

"The Coalition Government is committed to building a more diverse, even and sustainable economy. As major engines of growth, our cities have a crucial role to play. But to unlock their full potential we need a major shift in the powers available to local leaders and businesses to drive economic growth. We want powerful, innovative cities that are able to shape their economic destinies, boost entire regions and get the national economy growing. The aim of these deals is to empower cities to forge their own path, to play to their own strengths and to find creative solutions to local problems" (Nick Clegg, Deputy Prime Minister, Foreword, HMG 2011)

Waves 1, 2 and 3…

Wave 1	Wave 2	Wave 3
Greater Birmingham	The Black Country	Glasgow City
Bristol Region	Bournemouth	
Greater Manchester	Brighton and Hove	
Leeds City Region	Greater Cambridge	
Liverpool City Region	Coventry and Warwickshire	
Nottingham City Region	Hull and Humber	
Newcastle Region	Greater Ipswich	
Sheffield City Region	Leicester and Leicestershire	
	Milton Keynes	
	Greater Norwich	
	Oxford and Central Oxfordshire	
	Thames Valley Berkshire	
	Plymouth	
	Preston and Lancashire	
	Southampton and Portsmouth	
	Southend	
	Stoke and Staffordshire	
	Sunderland and the North East	
	Swindon and Wiltshire	
	Tees Valley	

Source: Deputy Prime Minister's Office and Cabinet Office

Infrastructure in Wave 1 City Deals

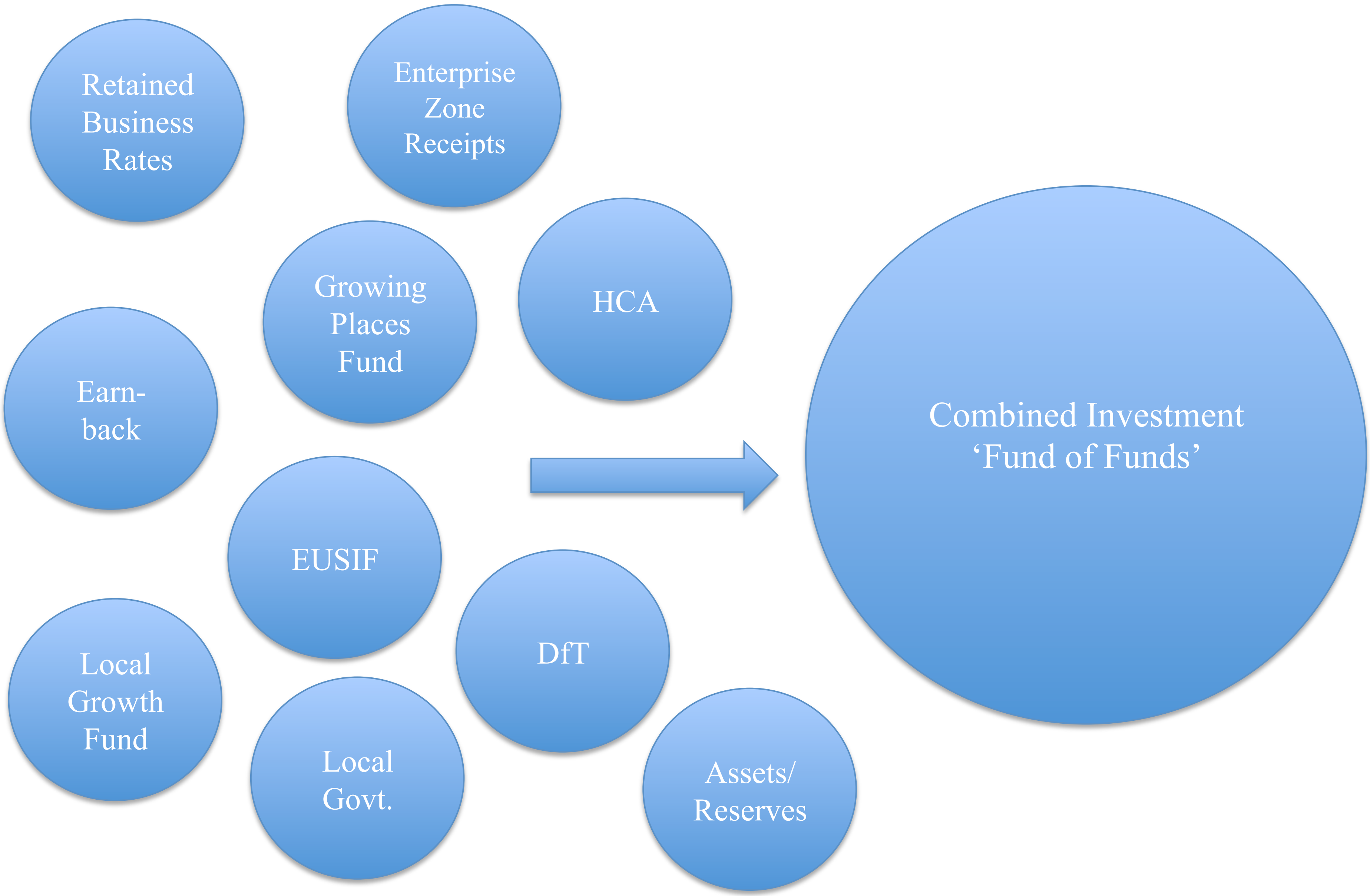
Instrument	City Deal	Detail
Earn-Back	Greater Manchester	Payments by results – infrastructure investment raising GVA growth, which earns back a return of national tax cake
Tax Increment Financing	Newcastle, Sheffield City Region and Nottingham	Critical infrastructure against future business rates
Economic Investment Fund	All Metropolitan/LEP Deals	Pooled funding and business rate to be self-sustaining
Rail Devolution	Greater Manchester, Bristol and West of England, Leeds City Region and Sheffield City Region	Commissioning and managing local and regional franchises
Local Transport Major Funding	Greater Birmingham and Solihull, Bristol and West of England, Leeds City Region and Sheffield City Region	Devolved transport funding matched locally for strategic transport investments
Low Carbon Pioneers	Greater Birmingham and Solihull, Leeds City Region, Greater Manchester, Newcastle and Nottingham	Local Programmes to reduce emissions, invest in green infrastructure and generate new jobs
Superfast broadband	Bristol and West of England, Greater Birmingham and Solihull, Greater Manchester, Leeds City Region and Newcastle	£100 investment fund

Source: Adapted from Marlow, D. (2012) City Deals – Implications for Enhanced Devolution and Local Economic Growth, Policy Briefing, LGiU: London.

Emergent funding and financing practices

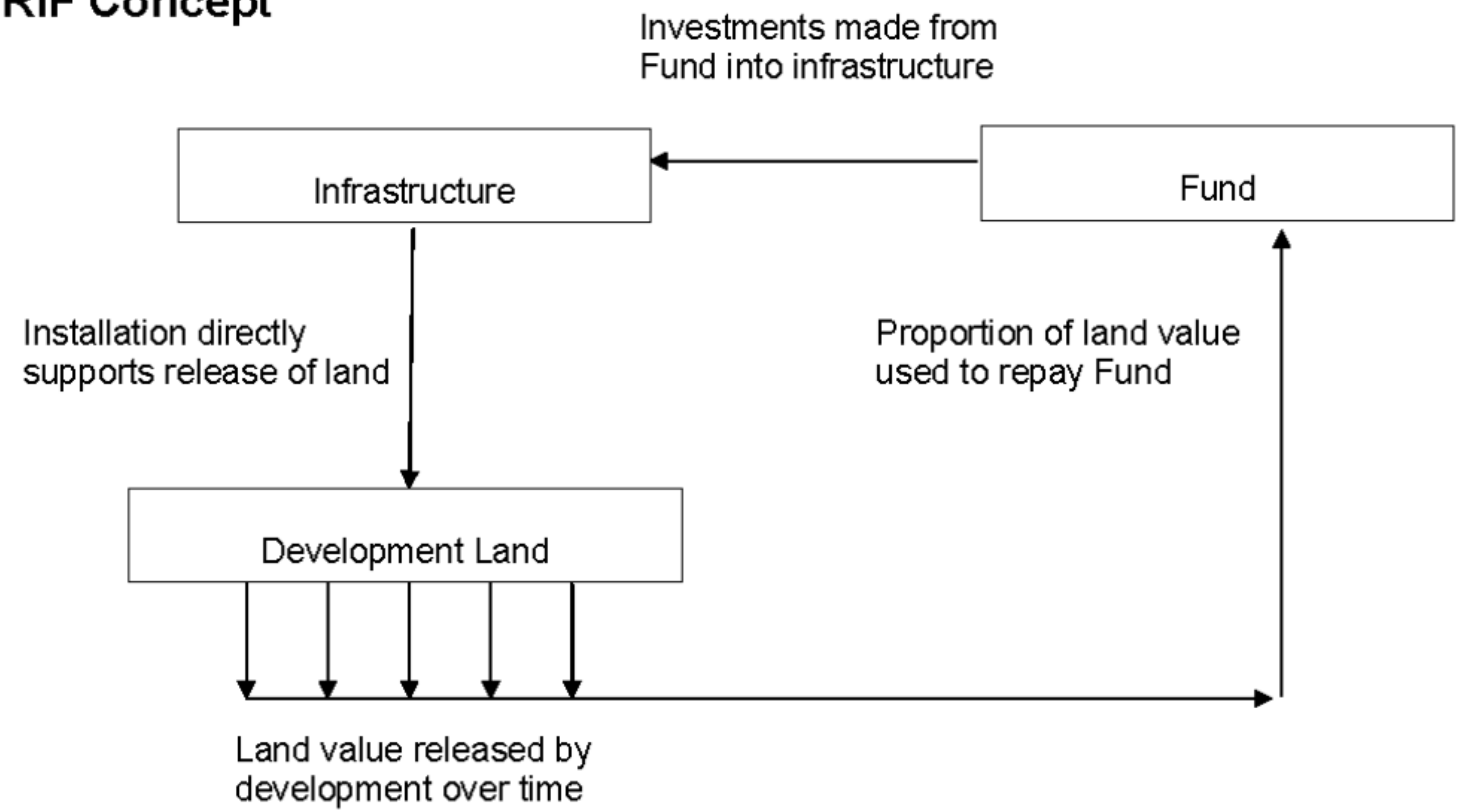
- Prioritising
- Innovating and experimenting
- Pooling
- Scaling-up
- Risk-sharing
- Revolving and recycling
- Tailoring
- Co-investing
- Integrating appraisal and decision-making
- Aligning and co-ordinating
- Governing and accounting

Pooling and scaling-up



Revolving Infrastructure Funds (RIFs)

RIF Concept



Source: HCA (2012) Growing Places Fund: Guidance on Revolving Infrastructure Funds, London, Homes and Communities Agency.

City Deals as governance mechanisms

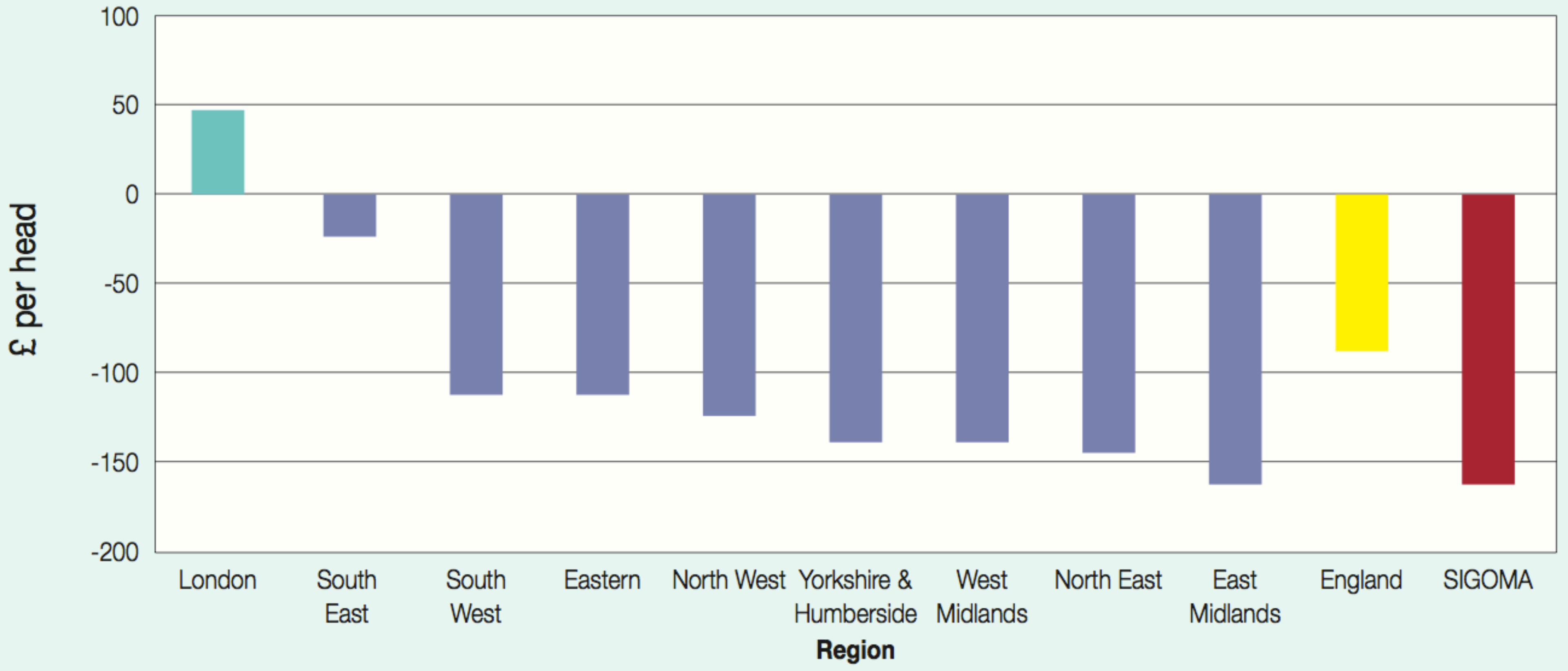
- Negotiated central-local government ‘deals’: “something for something” and “payment by results”
- “Self-help” and reduced reliance on central government: locally-led funding, financing and risk-bearing
- Aim for maximisation of impact on city-region economic potential (GVA, employment, productivity)
- “Freedoms and flexibilities” for local innovation
- Governance and delivery reforms through joint local authority structures at city-region scale
- Constraints of austerity and fiscal stress in highly centralised system

Tax Set at Each Level of Government as a Percentage of GDP (2011)

	Local Government	State/ Regional Government	Local + State/ Regional	Central Government	Social Security	Total
Canada	3.1	12.2	15.3	12.8	2.9	31.0
France	5.8	0	5.8	14.4	23.9	44.2
Germany	3.0	7.9	10.9	11.8	14.3	37.1
Italy	6.8	0	6.3	22.6	13.4	42.9
Spain	3.0	7.3	10.8	9.5	11.7	31.6
Sweden	15.9	0	15.9	22.8	5.6	44.5
United Kingdom	1.7	0	1.7	26.9	6.7	35.5
United States	3.9	5.2	9.1	10.3	5.7	25.1
OECD (2010)	3.9	5.0	8.9	20.2	8.3	33.8

Source: OECD Revenue Statistics Comparative tables, http://tinyurl.com/revenuestatistics

Cumulative impacts of local government funding reductions per head by region, 2010-2012*



* Excludes police and single tier fire authorities. Population is 2013 projected.

Source: Special Interest Group of Municipal Authorities (outside London) within the Local Government Association (SIGOMA) (2013) A Fair Future: The True Impact of Funding Reductions on Local Government, SIGOMA: Barnsley.

Conclusions

- Changed context for infrastructure financing
- ‘Financialisation’ and infrastructure as an asset class
- New centre-local governance arrangements in negotiated ‘city deals’ in England
- Emergent funding and financing models and practices
- Diversity and variety in bespoke approaches adapted to local circumstances and aspirations in centralised and constrained system
- New and evolving initiatives with uncertain implications

Acknowledgements

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