The Government's infrastructure plan
27th June 2013

On 27 June 2013, the Chief Secretary to the Treasury outlined the government's infrastructure investment priorities beyond 2015.

LGA Key Messages

- The Government's recognition that local authorities have a crucial role to play in supporting housing and wider economic growth is very welcome.

- We remain very supportive of Lord Heseltine's recommendation to devolve funding held by central government departments to Local Enterprise Partnerships (LEPs) through a single pot. However, unless there are major changes to the Single Local Growth Fund, which seems to have different rules for different funding elements, it is hard to see how this will actually operate as a single pot.

- The Government needs to devolve much more of the £50-70 billion in growth-related funding that is currently controlled by Whitehall departments to local councillors and business people. They know their areas and its economic needs best, as Lord Heseltine argued.

- The total annual growth pot will be £2 billion, well below the £70 billion recommended by Lord Heseltine and disappointingly that the vast majority of the fund is simply a reallocation of existing council or already-devolved funding.

- We are very concerned about today's decision to require the pooling of a portion of the New Homes Bonus, which will redistribute money between councils within LEPS and impact on the funding for local services. We are urgently seeking more detail on this proposal.

- We welcome the Government's commitment to devolve the majority of spending decisions for England's European Union Structural and Investment Funds to LEPs.

- We are pleased that the Government has listened to us and increased investment in local roads maintenance by around £300 million per year. This will make a contribution to dealing with the backlog of repairs, although it is someway short of the £800 million annual shortfall in road maintenance identified by local authorities. The increase in "Local Authority Transport Majors" projects funding is positive, as well.

- The Government has also listened to our concerns regarding the need for greater flexibility on capitalisation by agreeing to consult on

Briefing

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allowing some flexibility for local authorities to use asset sale receipts to finance one-off costs of service transformation.

This briefing covers:

- Single Local Growth Fund
- Transport and roads maintenance
- EU Structural and Investment Funds
- Flood defences
- Schools capital
- Rent levels and capital investment in affordable housing
- Use of capital receipts
- Shale gas operations

Single Local Growth Fund

As part of the 2015/16 Spending Round publication yesterday, the Chancellor announced the creation of a Single Local Growth Fund (SLGF) with over £2 billion to be spent under the strategic direction of Local Enterprise Partnerships (LEPs). Today's announcement clarifies where this money will come from, including £400 million from the New Homes Bonus; £819 million from Local Authority Transport Majors; £100 million from Local Sustainable Transport Fund; £200 million from the Integrated Transport Block; £330 million in Further Education capital and £170 million in ESF skills match funding. The SLGF is expected to amount to at least £2 billion annually in the next Parliament.

The Government recognises some local authority Majors funding is already committed to specific transport projects. Today's announcement also indicates a further commitment of £5 billion of transport funding in the SLGF from 2016-17 to 2020-21 to enable long-term planning of priority infrastructure. The Government will also consult on the mechanism for requiring that a proportion of New Homes Bonus is pooled by local authorities and within LEPS as part of the SLGF. LEPs and the member local authorities will then agree how to spend this funding in line with their strategic economic plans as agreed through the Growth Deal process.

The SLGF will be allocated through a competitive process on the basis of LEP strategic plans. The Government believes that this approach will target resources at LEPs with the strongest strategic plans that demonstrate their ability to deliver growth.

LGA View

- We remain very supportive of Lord Heseltine's recommendation to devolve funding held by central government departments to LEPs through a single pot.
- However, unless there are major changes to the Single Local Growth Fund, which seems to have different rules for different funding elements, it is hard to see how this will actually operate as a single pot.
- It is very disappointing that the vast majority of the fund is simply a reallocation of existing council or already-devolved funding.

- Councils are overwhelmingly saying ‘yes’ to new homes and are working directly and in partnership to bring forward homes and encourage housing investment locally. Today’s decision requires local pooling at the LEP level of un-ringfenced funding previously received directly by councils. This will redistribute money between councils and impact on the funding for local services. Those impacts do not appear to have been properly considered and we are urgently seeking more detail.
- For LEPs to truly have the power to unlock local growth, much more progress needs to be made to devolve the £50-£70 billion in funding that Lord Heseltine determined could be invested more effectively through local decision-making than under the control of Whitehall departments, e.g. Regional Growth Funding.
- SLGF funds should be allocated on a non-competitive basis to give councils, businesses and other prospective investors more certainty over spending plans. Any competitive process must keep bureaucracy to a minimum and ensure that all LEPs receive a fair share of funding.

Growth Deals

The Government has committed to negotiating a Growth Deal with every LEP to give local areas greater resources, powers and influence on the basis of multi-year strategic plans developed by the LEPs. The Government will publish guidance on the strategic plans and the Growth Deals process by the summer.

LGA view

- Councils and their local business partners believe that Growth Deals have the potential to be game-changers in terms of enabling them to fulfil their ambitions for growth in their areas. We are calling for central government to match their ambition.
- We look forward to working with Government to ensure that the roll-out of these Deals advances quickly with a minimum of bureaucratic wrangling.
- Additionally, we were also pleased to see that the innovative Earn Back element of the Greater Manchester Combined Authority’s City Deal has been confirmed as it stands to demonstrate the benefits of enabling local areas to retain a fair share of the proceeds generated by their investments in growth.

Roads maintenance

The Government has also announced that it would invest over £28 billion over the six years from 2014 in enhancements and maintenance of national and local roads. £10 billion of investment has been committed to road repairs between 2015-16 and 2020-21: £4 billion will be spent on national road maintenance – enough to resurface over 21,000 miles of road. £6 billion of that money will be spent at a local level.

LGA view

- The LGA has pressed for additional funding for roads maintenance as a necessity to support a crumbling network, but also as a means of creating jobs and getting the economy moving. We are pleased that the Government has listened and increased investment in local roads maintenance by around £300 million per year, from £700 million planned expenditure in 2014/15. This will make a contribution to dealing with the backlog of repairs, although it is someway short of the £800 million annual shortfall in road maintenance identified by local authorities.

Local Authority Majors Transport Scheme funding

Local Authority Majors Transport Scheme funding has been announced as £819 million for each year from 2015/16 to 2020/21, a total of £4.9 billion. This compares favourably with the 2010 spending review total of around £1.5 billion and reflects the LGA's call for an increased in transport funding.

LGA view

- This is a significant increase in the capital available for investment in local major transport schemes and is welcomed. The local major's funding will be part of the government's single growth fund and it is not clear at this stage how much of the fund will be subject to a competitive bid and how much will be allocated by formula.

EU Structural and Investment Funds 2014-2020

The Government has confirmed it will devolve the majority of spending decisions for England's £5.3 billion European Union Structural and Investment Funds (EU SIF) for 2014-2020 to LEPs as notional allocations. We await the detail about any funds held nationally, but understand this amounts to over 4 per cent. EU funds have to be match funded by national or local funding, and the Government has confirmed it will put forward at least £170m match for European Social Fund.

LGA View

- After many years of lobbying by councils and the LGA, we welcome the Government's move to devolve the majority of England's £5.3 billion EU SIF spending allocations for 2014-2020 as seven year notional allocations to LEPs[i].
- We were disappointed that England's overall allocation was cut by 11 per cent on previously proposed February allocations, which was redistributed to Scotland, Wales and Northern Ireland.
- Councils are working with LEPs and partners to plan how these funds (including European Regional Development and European Social Funds) will add maximum value to deliver more intense, locally integrated provision to boost growth, employment, skills and support the most vulnerable.
- However, their ability to do this depends on available and flexible local and national match against EU money. Devolving spending decisions for EU funds is only half the solution.

- The small amount allocated to the Single Local Growth Fund means local areas must now look for other match funding to co-invest in local LEP EU plans. This will be a challenge for every area in England.
- To ensure we spend all England's allocated EU funds, it is critical any match funding from Whitehall is flexible enough to support local investment priorities. The Government's £170 million match for ESF skills funding into the single pot is welcome but it must be driven by local priorities rather than centrally driven rules on how it can be spent. This requires an open discussion between local partners and Whitehall departments. The LGA will continue to work with Whitehall to ensure these issues are resolved over the coming months.

Flood defences

The Government announced that it has set a long-term funding settlement for flood defences, rising from £344 million in 2014/15 to £370 million in 2015-16 and then protected in real terms to 2020-21. This provides a total of £2.3 billion and represents a real terms annual increase of 18 per cent compared with the Spending Review 2010 period. The Government also announced today that they had reached an agreement with the insurance industry on the provision of accessible and affordable floods provision to replace the existing Statement of Principles. The Government is proposing to introduce the necessary legislation through the Water Bill, published today.

LGA view

- Councils have been at the frontline in protecting their communities from the impact of flooding. We therefore welcome the Government's announcement to increase and protect spending on flood defences for homes and businesses. This extra funding will help councils lever in local contributions and enable more flood protection schemes to go ahead. The increased investment should also support the provision of accessible and affordable flood insurance cover for households.

Schools capital

The Government has committed to invest more than £21 billion of capital in schools over the next Parliament, which includes enough funding to build over 275,000 new primary school places; 245,000 new secondary school places; open up to 180 new Free Schools; 20 University Technical Colleges and 20 Studio Schools a year; as well as addressing all essential schools maintenance needs. The announcement includes a promise to rebuild 150 schools in very poor condition by 2017 – two years earlier than planned – as part of the Priority School Building Programme.

LGA view

- Councils have the ambition to meet every parent's expectation that their child has a place in a good school in their local area, but there is still not enough capacity to cope with the growing demand. So this commitment to provide additional capital to fund the school places needed is welcome. Pupil numbers began to increase in 2010 and by 2021 numbers are projected to be 18 per cent higher than in 2012. These national figures mask much higher increases in demand in some areas.

- The commitment to sufficient resources to address all essential school maintenance needs is also welcome. But the Priority School Building Programme has been characterised by delay and excessive central control and bureaucracy. The Government needs to make sure that this money is released quickly and that councils are allowed to develop locally procured solutions with schools in urgent need of repair.
- Centrally designed and procured schools capital programmes can have a very poor record of delivery if not effectively matched to local need. This announcement of new capital needs to be matched with an announcement that the new money will flow quickly to local areas and allow councils and schools to work together to design and procure vitally needed programmes to repair crumbling schools and provide urgently needed new places.

Rent levels and capital investment in affordable housing

The Government has announced a £3.3 billion package to support 165,000 new affordable homes over three years from 2015 -16. The Government also announced that from 2015-16 social rents will rise by CPI plus 1 per cent each year for ten years.

LGA View

- Long term certainty on social rents is crucial to support councils and Housing Associations to invest in housing over the long term. Changing the rules on rent levels just one year after local councils signed a deal with the Treasury to run their own housing stock will mean councils will need to review their plans and may need to revise down their ambitions to build new homes and invest in the improvement of existing ones. We will be working with councils to understand the impact of this change for councils building ambitions.
- Demand for affordable homes continues to increase, it is helpful that the government has listened to the LGA’s call for capital investment in housing and it is important that councils, as well as Housing Associations, are able to access the £3.3 billion fund on an equal basis.
- It is disappointing that the appetite of local authorities to use their own assets to build thousands of new homes continues to be stifled because of a Treasury imposed housing borrowing cap which councils, developers and the markets agree is unnecessary. Removing the cap would enable local authorities to build up to 60,000 new homes over the next five years.. Councils, through the LGA, will continue to press government to remove this unnecessary and arbitrary restriction.

Use of capital receipts

The Government announced that it will consult on allowing some flexibility for local authorities to use asset sale receipts to finance one-off costs of service transformation.

LGA View

- The Government has listened to our concerns regarding the capitalisation of one-off revenue costs. This announcement is welcome; however, the Government should go further and allow local authorities to classify one-off service transformation costs as capital without the need to sell assets. Local government has a proven record of being able to manage its borrowing prudentially, and it should be trusted to continue to do so.

Shale gas operations (fracking)

The Government will publish, by 18 July 2013, up to date planning guidance on shale gas for local authorities. A package of community benefits for communities affected by fracking has been announced.

LGA View

- The LGA has continued to argue that fracking proposals should be a matter for consideration through the local planning system which provides a transparent and democratic process to ensure the interests of local communities can be taken into account.
- The LGA has been engaging with the Department of Communities and Local Government to influence the development of the planning guidance and ensure that it provides clarity for local authorities on how the planning regime will operate for fracking applications.
- The LGA has argued that it is important that local communities are able to benefit from shale gas operations in their areas and the mitigation. The benefits associated need to be part of the transparent and democratic local decision making process.
- It is unclear from the proposals how the community benefits will reach those communities affected in a transparent and fair way and we are seeking clarification on the detail.

Full details of the Government announcement can be found here https://www.gov.uk/government/news/government-prioritises-long-term-investment-in-infrastructure-spending

For further information on this briefing paper please contact Piali DasGupta on (0)20 7664 3041

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[i] https://www.gov.uk/government/speeches/european-regional-development-fund-and-european-social-fund-allocations-2014-to-2020