

# Project and asset finance

In the current funding market there are many challenges in funding capital projects and asset purchases. Sound business cases are required to be made in line with overall financial plans and budgets to support particular funding routes. The choices will range from using own resources and prudential borrowing to project finance (PFI/PPP) and leasing.

## Prudential borrowing

Prudential borrowing has provided local authorities with greater flexibility to use their own financial capacity to fund capital projects. This is always subject to ensuring that the impact on Council Tax and the resulting level of borrowing falls within parameters established by guidance and policy. Prudential borrowing may be through prudent use of cash reserves, borrowing from the Public Works Loan Board (PWLB) or from other external sources.

## Project finance

PFI/PPP generally involves a private sector contractor raising finance for a capital asset and the local authority effectively paying the contractor's cost of servicing the debt as part of a 'Unitary Payment' which will also include payment for long-term maintenance and other operational services. A key feature of PFI/PPP is that an authority only starts making payments once the asset is available for use and only to the extent that it is operating satisfactorily. Thus a key advantage is that significant risk is

transferred. A consideration under this approach is that the contractual arrangements can be complex and there may be costs associated with changing the financing arrangements, therefore the flexibility in respect of major changes may be more constrained or costly under PFI/PPP.

## Leasing and asset finance

Leasing may also provide an appropriate way to finance large public services related investments, such as transportation. In the UK corporate market, leasing accounts for 30% of all capital expenditure and is expected to increase as lack of liquidity becomes more acute. While leasing is used in the public sector, there is scope for further use of this method of finance as leasing has several potential advantages including:

- spreading the cost of an asset over its life or longer period
- access to additional forms of funding
- removing certain risks associated with ownership of the asset such as residual value and asset obsolescence risk.

In addition, some leases are also linked with asset management and maintenance services, thereby reducing management time and potentially costs associated with asset ownership.

Leasing offers financiers security against specific assets as well as the covenant of their customer thereby improving the security to the lender. Leasing services are provided by banks, vendor financiers and independents. There are many specialised lessors that provide finance and services to the public sector for various types of assets including: workshop, medical or IT equipment and vehicles (passenger cars and commercial/specialist vehicles for waste management, police and emergency services).

Knowledge of the most appropriate source of finance is key to ensuring that the optimum financing structure is obtained and our leasing team can assist local authorities to raise finance for new or existing assets and also source asset management related services.

## Summary

The choice of financing is an important one. Prudential borrowing may be cheaper in itself and can be secured more quickly and flexibly, but an authority retains all the risk. Thus, financing routes should be determined with due regard to the nature of the asset that is being secured and the extent to which it is actually better value for money to transfer risk. It should also be recognised that the due diligence carried out by lenders and lessors provides an authority with additional comfort surrounding the functional soundness of the asset being acquired. Additionally, in many projects there is the possibility to combine different financing routes for different elements.

## About us

At Grant Thornton, we have extensive relevant experience including:

- developing business cases considering financing options including prudential borrowing, PFI/PPP and leasing
- developing and supporting the procurement of PFI/PPP projects
- raising asset finance for corporates including specialist assets
- advising on outsourcing of fleet management services
- lease accounting and tax advice – UK GAAP, IFRS and VAT advice with regards to new lease structures
- lease administration of structured leases – administrating the lease agreements and premiums for complex structured leases.

Our understanding of the complexities of the sector, combined with our core services, enables us to craft unique, bespoke solutions to meet specific challenges. Our specialist team, made up of individuals from the industry, has been offering practical and strategic business advice in this sector for many years and can provide experienced and independent views.

## Contact us

For further information on how we can help you, please contact:

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