Risk analysis and preventive measures of local government investment and financing platform companies

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Abstract. District B is the central location of the economy of Shenzhen and Hong Kong, in the 1990s the urban infrastructure construction operation and maintenance are carried out by the government, the project construction funds are government financial funds, with the rapid increase in the economic level of the district, the residents' living needs for infrastructure needs increased, the limited government financial support in District B is difficult to promote the development and construction of urban infrastructure high-speed in all aspects. The government gradually tried to promote the reform of the investment and financing system mechanism, set up an investment and financing platform, tried to promote the construction of the investment and financing system by taking the government's financial capital as the lead and using bank credit funds and social capital to participate, set up a number of local investment and financing platforms, such as construction investment companies and investment management companies, and took the initiative to undertake the government-led infrastructure and construction of major industrial projects, prompting the investment and financing platform to enter the This has led to the fast track of development of investment and financing platforms.

Keywords: local government; investment and financing platform; risk control.

With the increasing scale of government investment and financing platforms, various problems have emerged in practice, such as less complete institutional mechanisms and increasing credit risks year by year, which have aroused widespread concern from all walks of life. Drawing on the experience of local government investment platforms at home and abroad, reflecting on a number of risks in the management of government investment platforms in District B, this article proposes to adjust the positioning of investment and financing platforms, determine the functions of investment platforms, develop group operation and management, standardize the management of investment and financing platforms, broaden investment and financing channels, optimize and improve the corporate governance system, accelerate the promotion of capital operation, and strengthen the supervision of local governments.

1. Concepts related to government investment and financing platform

(1) Local government investment and financing platform

Different scholars have different cognitive understanding of local government investment and financing platform. The main body of government investment and financing platform operation is the government, which uses financial funds to start municipal transportation, natural environment management and ecological construction, and the investment and financing platform is established by the government for the specific purpose of infrastructure investment and financing, and the financial capital funds are invested in municipal projects. The source of funds is the financial funds allocated by the government, focusing on the operating platform for the purpose of promoting urban development and construction and completing the construction of major government projects.

(2) Government debt risk

Government debt, also known as public debt, is a debt formed by the government borrowing funds from the society, which needs to be repaid to the creditors according to the agreed conditions. The risk of government debt is the element of uncertainty that exists when the government borrows funds and uses the funds, which can cause the government's income and expenditure conflicts to intensify, and the risk of financial imbalance [1].

2. the analysis of the current situation of the operation of the investment and financing platform in Area B

2.1 The current situation of debt development of the government in Area B

The development of marketization in China, China's reform into a new period of development, play the role of the market in the allocation of social resources, the opening of various social sectors to the market, the government and society to share the responsibility of public services has become a new trend of development. At present, China's population is increasing and the demand for public goods is increasing, but the shortage of supply has become the main contradiction of the current society. How to properly deal with the relationship between the government and society and alleviate the imbalance between supply and demand of public goods has become the focus of discussion among all parties in the society. The government's underwriting of services will lead to too heavy a burden on the government and lack of efficiency. If the services are completely handed over to the market, the market players' pricing is too high, which will also make the public services lose their social benefits and will trigger the imbalance of supply in the market, the mechanism lags behind and the relatively limited financial resources, and the government's financial power lags behind the service power, which makes the operation risk of government financial resources surge.

Due to the lack of hard constraints of bankruptcy mechanism in some local government departments, in order to raise the required project development and construction funds and the birth of the local investment and financing platform, B District to establish enterprise investment management group construction, investment group, industrial investment group, road and bridge companies and other investment and financing platform, to undertake the entire region of urban operations, livelihood protection, urban development and construction tasks. With the increase in urban construction, these investment and financing platform debt in the proportion of government debt is also increasing. b district government investment platform debt is a direct hidden debt investment platform, access to project revenue can not make up for the cost of inputs, then the debt risk surge, will affect the local government finances. Investment and financing platform has the government's backing guarantee, its own financial situation will affect the government's financial situation, will affect the investment platform's debt settlement and investment capacity. At present, the government of District B has strong financial resources, and the investment and financing platform plays a key role in investment and financing, and the investment platform debt accounts for a relatively small proportion of the overall government debt. In recent years, the speed of urban development and construction has accelerated, and the investment and financing volume of the investment platform in various regions is increasing, and during the 13th Five-Year Plan period, the investment platform debt of the district has aggravated the government debt risk, and if more attention is not given to it, it will also cause a surge in government debt risk [2].

And the land prices in the region produce systemic risk, at this time the government's debt service pressure increases, it is difficult to repay the debt in a timely manner the district government should plan early and reasonably regulate the operation of the investment platform and strengthen the prevention and control of risk. Special attention is paid to the period from 2018 to 2021, the gross regional product of District B grew by 50%, the scale of investment platform debt began to increase in recent years with the accelerated pace of urban development and construction, the government of District B in recent years, the debt pressure will also further increase.

2.2 Risk analysis of the local government investment and financing platform in Area B

1. Financial risk

After the government implemented the reform of tax sharing mechanism, the increase of local government revenue in Area B has been significantly restricted, and the revenue from land supply is insufficient, despite the rapid increase of land price, the land supply has decreased, which affects the injection of local government financial funds. The rapid economic development of the region has put higher demands on the current public infrastructure, coupled with the construction of a modern international city. A large number of heavy and large-scale projects have to be carried out, and several projects are concentrated at the same time, which government funds are not able to support. By using investment and financing platforms to raise funds, this is currently the key path for local governments to promote investment and construction of major projects. Combined with the provisions of national laws, making the rapid development of investment and financing platform, it can be seen that the investment and financing platform for the region's economic growth social security are making great contributions, but with the increase in the scale of debt of the investment and financing platform, the local fiscal revenue disconnect, its potential financial fiscal risk can not be ignored [3].

2.Land finance risk

The investment and financing platform in District B, using land revenue as collateral security for investment and financing, treats land concession revenue as a source of funds to pay off debts. The government land grant is a one-time collection, and the land grant is an overdraft of local future land revenue behavior, and this investment and financing behavior is not sustainable due to the scarcity of land. In addition, the real estate market after 10 years of rapid growth, also produce some problems, social contradictions are increasingly prominent, the real estate market into the adjustment period, the implementation of national regulatory policies, land concession prices return to a rational range, rely only on land concessions completely huge debt is not realistic. If the external macroeconomic environment changes, land transaction prices fall, investment and financing platforms due to excessive indebtedness, project income can not support the debt, the investment platform will fall into the risk of insolvency, will also increase the risk of debt.

3. Financial risk

In order to achieve the government's performance goals, some government departments vigorously promote infrastructure investment and construction, which will trigger the risk of investment and financing platform, investment platform is often the land concession as the investment and financing collateral, bank loans as the main financing channel, long loan time, large scale of financing funds, relying on their own project income to repay the debt capacity is low, and then to. Financial institutions, especially banks, bring a lot of non-performing assets, which affects the stability of the national macroeconomy [4].

2.3 Moral hazard

Due to the problem of poor monitoring of the financial market and information asymmetry, the investment and financing platform in Area B will generate a lot of moral hazard, government departments pursue their own short-term performance, government officials are subject to performance assessment, and in order to stimulate the development of the local economy, financing in a big way, unfolding public project investment are loans for projects, which are medium and long-term financing, however, before the government leaders leave office, they do not have to face the risk of debt servicing pressure, and fail to Pursuit of its excessive debt responsibility, in a way, on the side to encourage some officials in order to achieve their performance goals, regardless of social benefits, vigorous financing, development and construction of public projects, and breeding the moral hazard of local government officials. If the supervision is not effective, there are problems of rent-seeking, corruption and underhand operation when local government departments use the investment platform to start investment, such behavior may induce bidding irregularities and high construction costs to the detriment of the public interest.

3. Strategies for risk control of government investment and financing platform in Area B

3.1 Effective use of policy resources to promote capital operation

Investment and financing platform to promote project construction with the help of government policies, urban development and construction industry development space is larger, there are more resources, the introduction of external strategic partners to develop infrastructure, release certain equity, the implementation of investment and financing platform of mixed reform, help investment and financing platform rapid development, enhance the strength of the enterprise.

For the concession field, the subsidiary with business income can be appropriately guided to list in the New Third Board A-share market, enjoy the advantages of listed companies listed capital resources, while giving the necessary preferential policies on fiscal and taxation.

The shares held by listed companies have higher market valuation and can be used for asset liquidation mortgage, which helps to raise funds in the capital market and create the second and third financing platform of the group, and can make the group companies use directed issuance, share placement and fund raising to quickly grow bigger and stronger, further enhance the strength of the enterprise and realize the independent accounting of each subsidiary of the investment and financing platform. The business splitting and classification method is used to replace the current business operation method of unified contract, and gradually enhance the industrial investment of the investment and financing platform in sports, tourism and other businesses, and effectively enjoy the tax preferential policies of government departments to reduce the cost of business operation. With the help of financial reform policies in the new zone, the investment and financing company will be built into a comprehensive financial control enterprise [5].

3.2 Applying different types of policy resources

When launching some policy-based businesses, the investment platform in Zone B should deeply explore the value of policy resources. Firstly, it should integrate resources and inject high-quality assets and operational resources through government allocation, independent purchase, and cooperation between state-owned enterprises and local private enterprises to establish joint venture operating companies. To make full use of social parking, garbage disposal, water environment, comprehensive improvement, network usage rights, road and bridge title rights, etc., make full use of the value brought by the facilities and public services of leisure and sports, which improves the sustainable cash and business profitability point and reduces the pressure of investment capital. In addition, we adopt the basic principles of classification management and differentiated treatment, classify the major projects of urban operation and management scientifically according to the requirements of national, provincial and municipal policy documents, adopt different commissioning and cooperation methods, reasonably allocate resources to those business operations that are more market-oriented, more competitive and more profitable, integrate and categorize them, and adopt BT and BOT methods to leverage social capital and participate in the project development and construction, and also gradually guide business subsidiaries to a mature development state and establish subgroup companies. The government's public supporting facilities are not highly profitable, and the degree of marketization is low, the project relies on government debt to start the use, reduce government investment and financing costs, and accelerate the progress of the project.

3.3 Broaden investment and financing channels

The traditional enterprises in the past should be transformed into investment platforms in a broader sense, undertaking projects with large investment capital, long investment time and relatively small capital returns. Medium and large municipal projects enterprises are reluctant to do, the market is also reluctant to do, the community can not do the project, investment and financing is the lifeline of the enterprise, B district government investment and financing platform risk is also concentrated. Therefore, to broaden the investment and financing channels, to change the current relatively single bank loan approach, also seems important. The city investment enterprise in B area needs to issue corporate bonds, medium-term notes, short-term investment bonds, also according to the current project development and construction plan to allocate funds and allocate assets. The use of urban investment enterprises to invest, the government to buy back the way, is a new investment model, in recent years, equity financing has become a new hot spot in the financing market, microloans venture capital and other emerging financial markets have also shown a high growth trend. From the current national perspective, the use of equity financing and the development of equity investment has become a common development trend, and strategic partners can be introduced to develop and operate urban infrastructure with the capital and technical advantages of investment and financing platform enterprises.

3.4 Consolidate the development of main business

The investment and financing platform must clarify the functions and operation fields of the state-owned capital platform, determine the development scale and development strategy of various main businesses, form three major business systems of urban development and construction, urban livelihood protection, and state-owned assets value preservation and appreciation, and be able to realize each business supplement. In terms of operation, we should highlight the main business, refer to the development methods of international and domestic state-owned group companies, create a new platform for financial services, and establish infrastructure development and construction segment, environmental and ecological segment, residential development segment, tourism segment, and intelligent city development and construction segment. Broaden the scope of the enterprise's franchise project operation and improve the PPP, project library, while enhancing the construction of shantytown renovation, can make full use of policy advantages to obtain funds, enhance cooperation with the state-owned platform, so that it can achieve the development and construction of urban goals, but also make the land value-added. Adopt the method of reasonable layout of long-, medium- and short-term projects, accumulate experience, and seek sustainable operation methods and operation methods. In recent years, the domestic local government investment and financing platform debt pressure will be eased, but it will take some time to restore a reasonable state and design the corporate balance sheet [6].

3.5 Improve the corporate governance structure

At present, the investment and financing platform in Area B is still in early development compared with Beijing and Shanghai in China, and its governance structure seems less mature compared with such huge groups as Shanghai Urban Investment and Capital, and the boundary of operating business is rather vague and even difficult to determine. In terms of the internal development goals of the enterprise, the major state-owned enterprises should be separated from the state of undertaking government projects as soon as possible and established to be able to participate in market-oriented competition. According to the governance structure of the enterprise, the governance system should be reasonably optimized, strategic and advantageous subjects in capital, technology and management should be selected globally, and strategic partners should be introduced to enter the emerging fields by means of equity participation and shareholding, so as to rapidly acquire market opportunities, while the role of the existing board of directors and the group party committee should be enhanced, and the rights of the board of directors under the company law should be implemented, and responsibilities should be assumed, significantly To give full play to the leadership and decision-making role of the Group's Party Committee. Significantly bring into play the Party's operating policy of managing the overall situation, while supplementing some of the employee representative supervisors to protect the rights of employees and also help to upload information and guide employees to participate extensively in the business operation, enhance their sense of ownership and help to safeguard the business operation. Appropriate introduction of the enterprise professional manager system and recruitment of external outstanding professional managers to in accelerate the promotion of business transformation [7].

4. Conclusions

The construction of local government investment and financing platform can broaden the government capital investment and financing channels, alleviate the contradiction of the current tight capital demand, promote economic growth, support social development, provide government public services, and improve people's livelihood all play a vital role. Local government investment platform development business, will produce some problems, will cause the senior leadership of enterprises focus on, take effective measures to strengthen the governance of local government investment and financing platform, improve the prevention of local government investment risk, improve the efficiency of local government financing platform operation, under the risk-controlled condition, can play the maximum role of the financing platform.

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