

Local authority bonds task and finish group – report from Cllr Edward Lord OBE JP (Chairman)

The budget announcement

1. The 2012 Budget proposed a 20 basis points (0.2 per cent) reduction in interest rates for loans from the Public Works Loans Board (PWLB) with the prospect of further interest rate reductions for councils demonstrating quality or value for money. It is unlikely that these proposals would have emerged were it not for LGA/WLGA pressure.
2. LGA and Local Partnerships staff have paused work on developing the main business case until it is clearer what these proposals comprise and whether they provide a genuine opportunity for local government.
3. The original business case identified the need for at least implicit Government support for any proposed collective agency, without which it is harder for it to raise funds at competitive rates.

The original business case.

4. Discussions have taken place with the independent “Treasury Advisors” and leading local authority Finance Directors to test whether the original model would be attractive to the profession. All have commented positively on the thinking behind the business case.
5. A number of leading councils have also indicated frustration with the frequent shifts in PWLB policies and the difficulties this creates when seeking to make long-term planning decisions. They have highlighted that there can be a wider merit in more diverse sources of finance for the local government sector.

Understanding Government proposals

6. In order to determine the Government position LGA officers have been in discussion with Treasury and other officials, but their thinking appears to be at an early stage. We have made clear in those discussions that any change to previously stated LGA positions would need to be decided by LGA elected Members.
7. It will be particularly important to ensure that any Treasury proposals do not end up undermining aspects of the “prudential code” - which gives councils flexibility to decide capital spending priorities. Councils rightly regard this as a hard won freedom, and of course capital spending is now largely financed by locally generated resources.

International perspectives

8. The experience from local government collective agencies in other countries is that, whilst a business case is a necessary part of a proposal, councils should expect resistance from within Finance Ministries.

Conclusion

9. The work on this project is at a pivotal point. It has resulted in a proposal from Government for a modest reduction decrease in rates and the possibility of further reductions. However the key is to establish if the proposed arrangements are likely to be something that is of long-term benefit for local government.

Contact officer:	Mark Luntley
Position:	Project Director Local Partnerships
Phone no:	020 7664 3336 07909 962193
E-mail:	mark.luntley@local.gov.uk markluntley@mac.com