

Item 5

Local Authority Bonds

Purpose of report

For discussion and direction.

Summary

In February 2012 the LGA endorsed a business case that demonstrated that, in normal market conditions, a local authority managed collective bond agency could be established. This agency would allow councils to borrow at less than the then Public Works Loans Board (PWLB) interest rates.

The Government responded by announcing a small decrease in interest rates together with a commitment to work with the LGA on a joint approach. However in spite of pressure from the LGA, civil servants have not followed up on the proposed joint approach.

This report sets out a proposed way forward.

Recommendations

That the LGA:

1. includes this issue in its pre-budget lobbying. The message to convey is that local and central government should work together to develop a joint agency; and
2. instructs Local Partnerships to set out structures showing what a joint local-central agency might look like to form part of that proposal to government. Detailed project oversight should be through the existing task and finish group.

Action

LGA officers to proceed as directed.

Contact officer: Daniel Goodwin/Mark Luntley
Position: Executive Director, LGA/Project Director, Local Partnerships
Phone no: 0207 664 3071/0207 664 3336
E-mail: daniel.goodwin@local.gov.uk mark.luntley@local.gov.uk

Item 5

Local authority bonds

Background

1. In October 2010 the Public Works Loans Board (PWLB) sharply increased interest rates charged on local authority borrowing. Given nearly all long-term borrowing is from the PWLB and loans are typically borrowed for 20 years duration, this increase has a significant long-term effect on council budgets.
2. The LGA commissioned Local Partnerships to see if councils could establish an agency to borrow and on-lend funds to member councils for lower cost. This would be similar to long-established agencies in Scandinavian countries.
3. In February 2012 the LGA Executive agreed a business case. This advice was informed by specialist advice from HSBC and City law firm Clifford Chance. The Chartered Institute of Public Finance and Accountancy (CIPFA) also established a reference group to provide professional advice.
4. The conclusion was that a collective bonds agency, similar to those operating in several other countries, could be established in the UK and would provide lending at lower than the then PWLB rates.

The 2012 budget

5. The 2012 budget slightly reduced PWLB interest rates, and included an offer of joint working towards a possible joint body with an announcement in the Autumn Statement. LGA officers have been in discussions with Treasury officials but there have been no discussions offered about this joint body.
6. The Autumn Statement announced a lower rate to be offered via Local Enterprise Partnerships but the proposed joint agency appears to be being quietly forgotten. That said, some civil servants clearly support our thinking.

International developments

7. In 2012 New Zealand councils launched a bonds agency similar to the model we have proposed. Last November the French government announced it will establish a joint central-local agency, drawing on the long-standing Scandinavian models. Germany and Australia have announced they are looking at similar bond agencies.

Work undertaken

8. A simplified summary of the case for a bonds agency was launched at a fringe event at the 2012 LGA conference and subsequently sent to every council Chief Executive in England and Wales.

Item 5

9. Two well attended national events targeted at local authority Finance Directors and Treasury Managers were delivered. These described the case for an agency in detail. The feedback from these events was positive.
10. Individual meetings with a number of senior local government Finance Directors have taken place. There is general support for the proposed collective agency, particularly from larger authorities.
11. Meetings with senior managers across a range of City institutions (banks, treasury advisors, credit rating agencies, brokerage firms, legal firms and pension advisors) to road test the assumptions in the original business case have taken place. Those institutions understand LGA proposals and advise that the business case appears sound.
12. Links with senior managers of the different international local authority collective bond agencies have been established. We have been able to see up close what makes a successful and prudent organisation.

Wider benefits

13. The business case set out the benefits of the proposed agency for councils, but the work generates wider benefits in line with several national priorities.
 - 13.1. This is a localist solution – councils are working together rather than looking to Government to provide borrowing.
 - 13.2. Our proposals reinforce existing positive incentives for prudent financial management. Councils would be taking responsibility for the wider credit-worthiness of the sector.
 - 13.3. It is more efficient – creating a market for local authority paper, reducing the cost of separate bond auctions and benefitting smaller councils.
 - 13.4. It increases competition driving down prices for the public sector.
 - 13.5. It reduces leakage of public funds by creating a new category of paper that UK pension funds (including council pension funds) are likely to find attractive. Those funds are then invested in areas that deliver local economic growth.

Key messages

14. Managers in other bond agencies advise that whilst national politicians see the wider benefits, some civil servants can be resistant. A successful strategy has been for local politicians to make the case direct to their national colleagues. A further local issue has been the high levels of staff turnover amongst key civil servants.
15. The LGA business case established that a collective agency could on-lend funds at competitive rates. The business case did not get into the details of how an agency

Item 5

might operate (eg joining arrangements for potential members). Some local government managers have asked that this area should now be developed.

Conclusions and next steps

16. The LGA could continue to develop a completely standalone agency. However the challenges of establishing an agency in the face of central government resistance should not to be underestimated. In practice if the LGA is to pursue this approach it would be important to secure Government support for the agency.
17. A second alternative option is to stop work at this point.

Financial implications

18. The proposed lobbying and related activities at this stage can be contained within existing budgets.
19. The LGA set aside a £100,000 budget for this work, not all of which has been spent. The work in designing the high level governance arrangements of the agency can also be funded within this budget.
20. The subsequent stages of detailed development of a joint agency would require additional funding - as external advisors are likely to be necessary. Some of the larger member councils have indicated that they would be prepared in principle to financially support the creation of an agency.
21. However if a joint approach is being pursued it would be reasonable to expect central government to contribute equally towards these costs.