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## A UK Local Government Funding Agency – would it be possible?

Posted by **Lars Andersson** on September 7th, 2011

The founding of Kommuninvest, a local government funding agency (LGFA), in Sweden in 1986 has transformed approaches to municipal debt finance. In just 25 years, the agency has over 260 members (close to 90 % of all local authorities) and has helped Swedish local authorities and other municipal bodies to raise debt, that during 2010 amounted to more than £13bn, which accounts for 54 % of all local authority borrowing in Sweden. All of Kommuninvest's bond issues in the financial markets are priced at rates slightly over Swedish government gilts. With councils in England now searching out the cheapest borrowing options for their capital programmes, it is a timely opportunity to ask whether such an organisation could ever work in the UK.

Kommuninvest has had a significant impact of the domestic municipal credit market and the whole area of financial management in municipalities. It has lowered funding costs for all Swedish municipalities, by bringing an alternative to the market and hence tough competition for the banks. By borrowing on a large scale on behalf of a number of authorities it has lowered the funding costs for its members and has seen growth of both balance sheet and members since its inception. In addition, Kommuninvest has contributed to the development the creditworthiness of Swedish municipalities through the continuous monitoring of the members, setting the standard even for non-members. Finally, through Kommuninvest we have helped to increase financial expertise in municipalities, both in the way business is conducted (in close cooperation with the individual municipality) and by arranging training seminars for civil servants and politicians.

So could we see an entity like Kommuninvest formed in the UK? I can see no reason why it could not happen. LGFAs have worked well for a number of years in Scandinavia, Holland, Canada and now new LGFAs are starting up in France and New Zealand. But there is of course quite a lot of preparatory work that has to be done. Though I am not an expert on the structures of British local government I am confident that there would be nothing intrinsically to stop the formation of a LGFA. Having worked on the creation of Kommuninvest, and have since worked on a similar vehicle in France, I have seen that while there are often major hurdles to overcome, there are rarely insurmountable obstacles.

I would suggest that a taskforce is set up to study the question of legal status, guarantees, capitalisation, governance, rating issues, financial calculations etc. This work could be made easier if using the vast experience that are to be found in the existing LGFAs and in the recent work in France.

In the respective countries LGFAs have played a big role to supply the local authorities with funding through both good and bad times. This has contributed to the stability of the economy of these countries. I think the prospects for such a system in the UK are good, though that isn't to forget that many of the same problems that I was confronted with in the creation of Kommuninvest would also need to be successfully resolved.

Lars M Andersson

Local government advisor and initiator to the Swedish local government funding agency, Kommuninvest.

[www.maproductions.se](http://www.maproductions.se)

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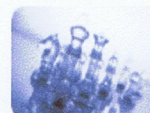
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