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It's time to cash in

Councils being urged to stand up to Treasury over City borrowing

By Jonathan Werran and Heather Jameson

Continued Government resistance to the establishment of a collective municipal bonds agency is blocking City investment into infrastructure schemes vital for local economic growth, council chiefs have alleged.

Speaking to *The MJ* this week, Sir Merrick Cockell, chairman of the Local Government Association (LGA) branded the Exchequer's opposition to alternative borrowing mechanisms 'bizarre' and urged councils to proceed without permission from the Treasury – or risk losing out to international competitors in the global race for growth.

Last year the LGA approved a business plan to consider the creation of an independent body to raise bonds from the commercial market. However, Smith Square has been frustrated by the unwillingness of Treasury officials to hold discussions on establishing a joint bonds body.

Instead, last December's Autumn Statement announced Local Enterprise Partnerships (LEPs) would be allowed to offer lower borrowing rates, leading to fears the LGA's plan for a joint agency had been quietly shelved.

Local authorities in England and Wales typically borrow £5bn each year from the Public Works Loan Board (PWLB) for infrastructure projects, at a cost 0.8% higher than the government benchmark gilt rate.

According to the most recent figures, around three quarters of the £45bn debt held by English local authorities is owed to the PWLB and most of the remainder owed to banks.

However, in urging councils to seek independent borrowing arrangements the LGA chairman has pointed to other countries, such as Denmark, Sweden, New Zealand and most recently France – whose local authorities don't rely on central government for borrowing.

Sir Merrick called for a big shift in the sector's ambition. 'Because actually, we don't need the Treasury's permission to do this,' he said.

Last week renowned international expert, Lars Andersson, who set up Kommuninvest, the Swedish local government funding agency in 1986, visited Smith Square to advise the LGA chairman.

Mr Andersson, who has most recently helped guide the French government to establish a municipal bonds agency, said resistance to local government borrowing freedoms was universal, but he originally believed France had the most rigid state bureaucracy.

'But coming to Britain, it's far more centralised,' said Mr Anderson – who was visiting Smith Square at the invitation of Local Partnerships.

According to Mr Andersson, it would take between 18 months to two years to establish a collective agency without Exchequer obstruction.

'We know also that pension funds in the UK would be really happy to invest their money with good-yielding, secure bonds, that make a difference in the development of the country as well,' Mr Andersson added.

Following his talks with Mr Andersson, Sir Merrick told *The MJ*: 'There is a lot we can learn from Sweden. Their local government bond agency offers a good template for the work we're doing to get our own agency up and running but the more grown-up relationship between central and local government over there is also something worth emulating.

'We're very keen to secure a similar level of independence from central government for councils in the UK and that's something we're working on for the next spending round and beyond.'

A spokesman for the Treasury said: 'Our position is still that we still believe that the PWLB arrangements offer the most flexible and best value for money route for local authorities to engage in borrowing.'