

Local co-operation leads to growth

Last week **Lars Andersson** helped launch France's municipal bond agency. Here, he explains the potential for councils across the world to take the lead in borrowing for growth.

Europe is going through rough times. We are still in the midst of austerity, as a result of the political decisions that followed the financial crisis. Many local authorities are experiencing cuts in central government grants. The result has been a weakening of local public services and a downturn of public consumption. Education and care of the elderly, as well as a number of other public services, are increasingly under threat. In many European countries the situation for marginalised groups is becoming worse as they can no longer rely on public benefits in a way that used to be the case.

The solution to all this is often described with the seemingly simple concept 'growth'. But what instruments do governments have to create growth? Infrastructure investment can facilitate the activities of private companies, but the high level of debt in many countries is an effective brake.

However, one part of the public sector still has low levels of debt and considerable experience of infrastructure investments: the local authorities. In Europe local authorities are responsible for two

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thirds of all public investments. They have an average debt level of around 7 % of GDP, in comparison with a central

government average of more than 80 % of GDP.

The correlation of public investments and growth has been established by a number of studies undertaken by IMF, OECD, the World Bank and EIB. Nobel Prize winner Paul Krugman has emphasised the importance by writing: 'Everything we know about economic growth says that a well-educated population and high-quality infrastructure are crucial'.

So, local authorities should let contractors put the shovels in the ground. The problem is, as always, financing. On top of shrinking state grants, the banks are more and more hesitant to lend to local authorities. Not because of risk reasons, but because of the upcoming Basel III regulations for banks.

Financial institutions are obliged to set aside an increasing amount of capital and this makes the thin margins they can get from local authorities bad busi-

ness for them. To use the bond markets could be an alternative route for the local authorities, but it requires high volumes and, more or less, constant presence. This is hardly suitable for any local authority. The answer is to join forces.

In the Nordic Countries and the Netherlands joint Local Government Funding Agencies (LGFA) have existed for quite a while. The oldest, KommuneKredit of Denmark, was created over 100 years ago. The youngest, Municipality Finance, has now passed its 20th birthday.

I started Kommuninvest of Sweden in 1986, for the reason that the Swedish banks functioned as an oligopoly when it came to lending to local authorities. The same kind of loans with the same high interest rate was offered by all of them. During my 15 years as CEO of Kommuninvest the market for loans to local authorities changed completely in Sweden. Kommuninvest was the driver of change.

Equipped to do the job

Managing pension funds is a complex job – and you only need to look at Detroit's debts to see how badly wrong it can go. **Susan Martin** argues for more training

If ever anyone needed reminding of the challenges of running a public pension fund, it came this summer with the city of Detroit registered for bankruptcy, detailing \$3.5bn of pension fund liabilities as part of its filing.

The actual level of the deficit, as well as its causes, have since been the subject of much debate – and of course, Detroit is far from alone in its plight; the problems in Michigan are part of a debate across the Western world about our ability to meet the retirement costs of an ageing population.

However, the one thing the situation does show us is the importance of ensuring decision-makers within pension funds have the necessary skills and training to do their jobs effectively.

Managing a large portfolio of invest-

ments is a complex task and one that requires considerable expertise.

As the industry as a whole becomes more aware of the need to manage assets in tandem with liabilities – pursuing strategies such as liability-driven investment that deliver better risk-adjusted returns – the need for experience and professionalism in pension fund management will only increase.

At the London Pensions Fund Authority, we believe that trustees across the public sector should be given more opportunities to invest in their own skills sets and to develop their expertise. We not only value formal training programmes and masterclasses (we were in fact honoured with the Best Trustee Training Initiative gong at the Engaged Investor Trustee Awards earlier this year)

but also knowledge-sharing and collaboration across the industry with the aim of widening the field of expertise.

We must ensure those who need professional investment skills have them, or are able to access them.

We have continued to lead by example in this domain, bringing in new board members with increased investment experience and a greater emphasis on managing the liabilities of the fund. In addition to the appointment of Sir Merrick Cockell as deputy chairman in late 2012 over the past year we have also brought in Dermot 'Skip' McMullan, a member of the Investment Committee and Business & Administration Committee who will be speaking at *The MJ's* Infrastructure conference in Bristol on 6 December, Kerry Adby as a Member of the Investment Committee, and Stephen Brooker as chair of the Audit Committee, Member of Risk Committee and Remuneration Committee.

It is this type of investment in human capital that puts us in as strong a position as we can be to meet the many challenges of running a public pension fund in the 21st century. The end result is improved performance and reduced risk for pension schemes, the Government and pensions holders. ▀

Susan Martin is interim CEO of the LPEA, a PPMA board member and its lead on pensions.

More information

For details of *The MJ's* infrastructure conference, go to www.localgov.co.uk/infrastructure-forum

Downtrodden Detroit: poor pension fund management in certain US states can serve as a lesson to the UK

