Banks had to follow and lower their rates.

France also established a lending facility for local authorities during the 1980s, through the Credit Local de France. This entity was later privatised and formed – together with the also privatised Credit Communal de Belgique – Dexia.

Unfortunately, Dexia adapted a little too well to the darker side of banking and crashed in 2010. That meant that something new had to be created.

There had been talks since the turn of the century, in which I have been involved, and in 2009 three local authority organisations started a project that is now at the finishing line. After long discussions with central government, the project was blessed by President François Hollande and then went smoothly through the Senate and the National Assembly. The agency, Agence France Locale, was formally launched on 22 October.

In France, as in every country in which something like this is discussed, the Ministry of Finance was initially sceptical. It seems the ministries of finance of this world are, for some obscure reason, doubtful of the abilities of local authorities to handle a LGFA - although these types of agencies have been proven to work over and over again in different countries.

In New Zealand the national authorities appear to have understood the need for an agency there. LGFA New Zealand was created in 2010 and is majority-owned by local authorities, with a minority share held by central government. In Australia, the Department of Regional Australia,

> One part of the public sector still has low levels of debt and experience of infrastructure investments: the local authorities

Local Government, Arts & Sport, inspired by the New Zealand agency, commissioned Ernst & Young to write the report *National financing authority for local government* (March 2013).

In Germany, interestingly enough, Deutsche Bank came up with a proposal to the local authorities to create a LGFA. The case was presented in the report *Einer für alle, alle für einen?* (One for All, All for One?).

The arguments are mainly based on fact that bank lending to local authorities will be increasingly difficult under the Basel III rules. As far as I know, efforts to create an LGFA have not really taken off yet, although discussions are taking place in various parts of the country.

In Britain the project to join forces in financial matters has been on its way now for some time. Decentralisation and fiddling with the PWLB rates are some of the arguments.

But the main motivation is that an agency that can issue municipal bonds would attract British investors to invest in British local infrastructure. Currently, British investors seeking high quality bonds often end up buying bonds issued by LGFAs in other countries, because of the lack of such an agency in Britain.

The group of local government funding agencies is growing, with the French agency and hopefully one in Britain soon. This is to the advantage of the existing agencies. The bigger the group, the more light is shed on local authorities and their ability to drive growth.

Lars M Andersson is an international local government finance expert

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A commercial breakthrough?

The time has come for local government bond agencies to give councils a more commercial approach, says **Sir Merrick Cockell**

The Government wants the public sector to take a more commercial approach. When it comes to the way councils borrow money, of course, the Treasury has been robustly commercial for a long time. Through the Public Works Loan Board (PWLB), it has a near-monopoly of lending to councils, and uses it to make a profit, at council taxpayers' expense.

It is time for councils to be equally commercial and look for a better deal. The Local Government Association's (LGA) work has shown that councils, working together, could issue bonds of our own that cost us less than using the PWLB. This isn't far-out financial engineering – as Lars Andersson shows (*see left*), local government bond agencies are not just common in other countries, they are becoming more so. And very popular they are too, hence the bizarre situation where local government pension funds can invest in Danish municipal bonds but not English ones.

And it's not just about cutting out the Treasury middleman. It is also about subjecting him to competition. The evidence of the last couple of years shows that the mere threat of a local bond agency keeps PWLB rates down. Imagine what the effect of a functioning agency would be, benefitting both councils that use it and those that don't.

So the time has come to move on from promoting the idea of a municipal bond agency, to actually building one. In the summer I issued an invitation to councils to come forward if they are interested in working to set up an agency. I have been delighted by the response I have had so far from some of the most serious authorities in the country. I know that other councils are still actively considering their response and I am looking forward to hearing from them too. LGA officers are now in detailed talks with treasurers from the most interested councils about what getting in on the ground floor of this exciting project would involve.

Later this year, I hope to announce how the LGA will proceed with those pioneers into the practical stages of setting a municipal bond agency up. There is still time for others to join us; and I look forward to welcoming leaders from the authorities concerned to Smith Square soon. A local government bond agency would allow us to take a more commercial approach to borrowing, and benefit our council taxpayers and the infrastructure the nation needs to grow. This is what mature and visionary local government is all about.

Sir Merrick Cockell is chairman of the LGA and deputy chairman of the London Pension's Fund Authority