BORROWING

Local authorities united over proposals for municipal bonds

By Jonathan Werran

Council chiefs have voted unanimously in favour of establishing a collective municipal bonds agency – which could potentially lower borrowing costs for vital local infrastructure schemes.

Last week's meeting of the cross-party Local Government Association (LGA) executive rubber-stamped the long-awaited plan, following expressions of interest from 18 councils.

Over the summer, the LGA wrote to local authorities inviting them to come forward and express interest in helping found an agency.

Major authorities such as Birmingham City Council, Cambridgeshire CC, Newcastle City Council and seven London boroughs – including the City of London Corporation, Westminster City Council and Kensington and Chelsea RLBC – have committed to work with the LGA to develop the bonds agency at an initial estimated set up cost of £2.7m.

However, there was concern that the Treasury would resist moves to establish such a body on the grounds it would undermine the Exchequer's the Public Works Loan Board (PWLB) as the Exchequer's preferred vehicle for local authority borrowing.

The PWLB currently offers money to councils at a 1% premium rate to Treasury gilts, with discounts available subject to conditions. Financial modelling undertaken by the LGA indicates a council borrowing £100m over 20 years could save as much as £4.7m compared with a PWLB loan.

But the LGA has insisted the proposals would not permit any additional borrowing above that allowed within the current capital regulatory system and councils would still be required to operate within the current prudential code.

Other benefits mooted for the council-run agency include setting sustainable lower borrowing costs free from the threat of the Treasury suddenly hiking interest rates and the ability to refinance debt without the PWLB's penalty clauses.

Sir Merrick Cockell: municipal bonds agency can reduce borrowing

Under the ownership model for agency, councils that invest in its creation and support its capitalisation in the first 10 years of operation would become shareholders and any risk capital invested would be retuned with interest earned at commercial rates after the first decade of operations.

Subject to a business case review, Smith Square hopes the bonds agency would be ready to start issuing bonds and on-lending to local authority borrowers by the end of 2014.

'The local government debt market is not operating in the best interests of local taxpayers and it is clear that we need to inject some additional competition into the system,' said chairman of the LGA, Sir Merrick Cockell.

'Our modelling shows that with its long-established reputation for prudential borrowing and good financial management local government can substantially reduce its current borrowing costs through the creation of a municipal bonds agency,' he added.

Internationally-renowned local government finance expert and LGA adviser, Lars Andersson, told *The MJ* the proposed agency would allow councils to diversify their borrowing sources, safeguarding local authorities against times of financial crisis.

'The LGA bonds agency is potentially better equipped to market local government risk to the investors in the capital markets than central government,' Mr Andersson said.

'In addition the lower borrowing costs would help incentivise local investments and promote economic growth,' he added.

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HOUSING

LEPs must take lead in local growth

Local enterprise partnerships (LEPs) should be instructed to maximise the role housing can play in boosting local economic growth, a lead housing organisation has advised.

In its Autumn Statement submission to the Treasury, the Chartered Institute of Housing (CIH) argues LEPs need to have a better understanding of how business decisions affect housing markets.

But because the £400m top slice of New Homes Bonus cash LEPs will gain from 2015 is 'a very small sum of money' compared with other big funding pots, such as European Development and Social Funds, there is a risk other priorities might overshadow housing.

The briefing also stated there could be opportunities to strengthen the engagement of LEPs by giving councils the freedom to borrow above the current £2.8bn borrowing cap or pool borrowing as part of City Deals designed to increase housing supply.

The CIH submission restates evidence showing local authorities have an appetite for an additional £7bn debt, which could be used to build 75,000 new homes over five years, help create 23,500 jobs and add £5.6bn to the economy.

'In the Autumn Statement the chancellor can take concrete steps to address the crisis and at the same time harness housing's potential to boost our economic recovery,' said Grainia Long, CIH chief executive.

'Local authorities would be able to contribute much more to meeting our national supply challenge if government would only give them the tools,' she said.

'Local economic partnerships will be critical in driving forward at local level and should look to ensure their plans fully capture the economic leverage offered by housing.'

A spokesperson from the Treasury said: 'It would not be appropriate to speculate on the contents of next month's Autumn Statement.'

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PENSIONS

LGPS revamp worth £860m a year

Restructure of the Local Government Pensions Scheme (LGPS) could deliver efficiency savings of at least £860m a year, an actuarial expert has calculated.

A report issued 25 November by the Centre for Studies think-tank condemns the 101 funds across England, Wales and Scotland as being 'woefully inefficient' and draws a correlation between administration costs per member and fund scale – with larger funds having lower costs.

The paper includes a cost comparison of LGPS funds and shows administration costs vary from £13.70 a year in Nottinghamshire to £139.40 a year in Durham. Investment management costs range even wider, from a mere £7.60 a year in West Yorkshire to some £317.30 in the city of London.

According to the paper, the £860m annual savings figure could be achieved through digitalisation and centralisation of LGPS management, improved investment management and amalgamation of the 101 funds into six giant schemes with average assets worth £33bn.

Report author, Michael Johnson, said: 'Costs are controllable, whereas investment performance, by and large, is not.

'This necessitates structural change and could help secure the future viability of the LGPS,' he added.

But rival experts questioned the report's findings. Nigel Keogh, pensions manager for the Chartered Institute for Public Finance and Accountancy, said the report 'seems peculiarly timed as many of its recommendations simply copy initiatives already being considered by the LGPS shadow scheme advisory board'.

'More importantly, far from being in the difficulty suggested the LGPS has over £200bn in assets and continues to have a positive cash flow,' he added.

Graeme Muir, partner and public sector practice area leader at actuaries Barnett Waddingham said: 'As with most papers produced by Mr Johnson, it's the usual mix of the good, the bad and the downright ugly – some facts, some fiction, some sensible stuff and some nonsense that could mislead us to the wrong conclusions.'