



Communities and Local Government Committee

Oral evidence: Local Councils and Lender Option, Borrower Option loans HC 353

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Questions 1 - 61

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Members present: Mr Clive Betts (Chair), Bob Blackman, Jo Cox, Helen Hayes, Julian Knight, David Mackintosh, Mr Mark Prisk, Mary Robinson, Alison Thewliss

Witnesses: **Antony Barnett**, Reporter, Channel 4 News, News and Current Affairs, **Abhishek Sachdev**, Chief Executive Officer, Vedanta Hedging Ltd, and **Rob Carver**, Former Derivatives Trader, Barclays Capital, gave evidence.

Q1 Chair: Welcome, everyone, to our first evidence session of this new Parliament's Communities and Local Government Select Committee. It is an evidence session with the reporter and contributors to the Channel 4 programme, *Dispatches: How Councils Blow Your Millions*, which is about local authorities and their borrowing through LOBOs.

Before we begin, Members of the Committee should put on record their interests, some of which of course are in the declarations of interest, but there may be others that are pertinent to an inquiry into local authority matters. I am a Vice President of the Local Government Association. If Members have a think about whether they have anything relevant to local government matters that they ought to put on the record, I would just ask that we go around the table and say so.

Mary Robinson: I have been a town and a borough councillor.

David Mackintosh: I am a member of Northamptonshire County Council.

Julian Knight: I have nothing to declare.

Mr Prisk: I have nothing to declare.

Helen Hayes: I have already declared on the Register of Interests that I am still currently a councillor in the London Borough of Southwark. I would also wish to declare for the purposes of this meeting that my husband works for an organisation called Social Finance, which advises local authorities on matters to do with social finance, rather than this type of finance, but is relevant to this meeting.

Alison Thewliss: I was a former councillor for Glasgow City Council.

Q2 Chair: Thank you. Coming on to our witnesses next, for the sake of our records, could you just go along the table and say who you are and your particular connection with this inquiry?

Abhishek Sachdev: My name is Abhishek Sachdev. I am the Managing Director of Vedanta Hedging. We are an independent FCA-authorised treasury consultancy, which advises corporates typically on how they should do their hedging.

Antony Barnett: Antony Barnett; I am a reporter for Channel 4 and I was the presenter of the programme.

Rob Carver: I am Robert Carver. I used to be a derivatives trader with Barclays Capital, and I hedged and traded a lot of LOBO transactions in that period.

Q3 Chair: Thank you very much for joining us this afternoon to explore further what we heard on the programme and try to go into perhaps some more detail than you were able to at that time. Could I just begin by asking this? Very much the programme was around deals that local authorities did over a period of time, but particularly before the banking crash happened. Are LOBOs something that are set in time—they were relevant to a particular period—or are they loans that are still being taken out today, in a similar form?

Antony Barnett: We know that there was a peak between 2003 or 2004 to 2011. Of course, councils are still paying the interest on these, because they run for decades, but they have fallen out of fashion post-2011. Just one thing: some of these LOBOs were taken out after 2008. I do not know if you want to add anything further to that.

Q4 Chair: What has changed? You are saying they were taken out before the crash and after the crash, but in 2011 they basically dried up.

Abhishek Sachdev: If you look at the nature of a LOBO, it effectively has an embedded complex derivative within it and, after the credit crunch when interest rates effectively collapsed, the breakage costs of cancelling these options and swaps absolutely ballooned. In general, you will find very few councils, local authorities or even corporates entering into long-dated complex derivatives.

Q5 Chair: They would not even want to enter into them if LOBOs had offered rates that were more competitive post the 2011 situation.

Abhishek Sachdev: The way that these things are priced, because interest rates are already so low—and Rob can talk more about this too from a technical perspective—is that these things are priced with call options and using long-dated parts of the interest rate yield curve. After interest rates had fallen, basically these LOBOs just would not work. You would not be able to generate the value to offer this discount to councils compared to PWLB loans.

Q6 Chair: Basically, after 2011 they became a bad deal compared with PWLB.

Rob Carver: It became more difficult for them to look superficially attractive. The situation we are in at the moment is that interest rates are expected to rise quite sharply over the next few years. That is what the market is pricing in and that makes the contracts look not as good as they were in 2006, when interest rates were expected to stay at roughly the same kind of level for a number of years. Yes, the interest rate environment has changed and they do not look as attractive as they did. It is much harder for the banks to take the value that the options have within them and then use it to make the actual headline interest rate look good, compared to comparable loans. I do not know if I explained that very well, sorry.

Chair: I am not sure you kept me with that all the time.

Antony Barnett: Thank you very much, Chairman, for inviting us. You will realise that it is a very complex world. Rob used to work on a desk called the exotic interest rate derivative desk, and you might want to ask him what that has to do with local government finance. He has tried to explain it to me many times, and Abhishek is your expert. For some reason, they have obviously not been attractive to the banks or to councils, but we do know that, between 2003 and 2011, £15 billion of these LOBOs were taken out by local authorities.

Abhishek Sachdev: If I try to explain it in a slightly different way, what these LOBOs are, in one aspect, is a loan with a complex derivative. What is that complex derivative? It is a series of options that have been sold by the council to the bank, and the bank is in theory supposed to use the value of these options to give a superficially low, attractive teaser rate, as we discussed on the programme.

In 2005, 2006 and 2007, when interest rates, as Rob said, were expected to be 5% or 6%, on that nice happy average, those options had some value, so the banks could do some of that jiggery-pokery, do a long-dated, 70-year deal and say, "Hey, look. Do you want something that looks more attractive than a PWLB loan?", which is 0.25% lower perhaps. After interest rates fell, because interest rates were only expected to go in one direction, they could not really do any of that financial magic that they were trying to do. Therefore, they could not make them look any more attractive than PWLBs.

Q7 Julian Knight: Mr Barnett, in the programme you say that LOBOs make up something like one-fifth of local authority borrowing.

Antony Barnett: That is right, yes.

Q8 Julian Knight: Do you know what sort of interest rates local authorities are getting on the other four-fifths of their borrowing?

Antony Barnett: I think between 4.5% and 5%. I can get back to you on the exact figure. I do not know if Abhishek knows.

Q9 Julian Knight: Does that apply as well to that period of 2003 to 2011 that the programme focused on?

Antony Barnett: Obviously the rates changed over time and the rates offered by the Government would have changed, so I could not be precise.

Q10 Julian Knight: Do you know what the typical weighted cost of capital is for local authorities?

Antony Barnett: I do not know. I have to say that I am a reporter, not an expert on local government finance.

Q11 Julian Knight: Do you think that the rates that these local authorities actually pay, bearing in mind as well that you have already acknowledged the fact that the interest rate environment more generally has changed, are too high or too expensive?

Antony Barnett: What—the rates that councils are paying on the loan?

Julian Knight: Yes, bearing in mind the environment that they were in, at that particular time.

Antony Barnett: Obviously I spoke to a number of experts when we made this programme. We looked particularly at LOBOs called inverse floaters; I do not know if you are familiar with these. These were where councils thought that rates were possibly going to go up, and they lowered the rates. They have in fact been very high. We have examples of councils paying more than 7% on hundreds of millions of pounds of loans. That is a very high rate.

A campaign group called Debt Resistance has been doing lots of work on freedom of information in getting these, and it has been very difficult to get a lot of this information. One of the things that I would like the Committee to be aware of is that, on the transparency front, it has been quite difficult to get a lot of this information. Some councils have simply refused to give details of these contracts, saying they are commercially confidential; other councils have been much more willing to just hand over everything.

Q12 Jo Cox: Mr Sachdev, in the programme, you cited a Newham Council LOBO for £25 million with a £15 million exit penalty fee. Do local authorities have to pay that kind of fee if they are exercising their option to leave the LOBO, or do they only pay it if they choose to break out of the deal early?

Abhishek Sachdev: It actually depends on how each individual contract is structured. Typically speaking, if the bank is exercising their right to say, “We want to increase the rates”, and you as a council have either got the option to pay that extra rate or just repay the whole loan, then that breakage cost is not payable. If they want to exit the loan at any other point or if they want to refinance it, for example, change any of the terms, change bank or anything like that, then yes, that full breakage fee would be payable.

Q13 Jo Cox: Would councils have to pay a similar exit fee if they wanted to get out early from a PWLB loan?

Abhishek Sachdev: The fees typically for a PWLB loan would be much lower.

Q14 Jo Cox: Do you know what they would be roughly?

Abhishek Sachdev: We did some analysis based upon some of the outstanding PWLB loans last year, and we looked at the total redemption costs for the PWLB loans as a proportion of what we call the face value of these loans, and it was about 38%. Doing the same thing for the current LOBO portfolio is above 90%.

Jo Cox: Sorry, could you go over that again?

Abhishek Sachdev: The relative cost of cancelling LOBO loans is much, much higher, from the data that we have analysed, than corresponding PWLB loans. The reason for that is generally twofold. One is that the LOBO loans tend to be far longer in duration. When we looked at the data, the average PWLB loan was about 22 years in duration, whereas the LOBO loans can be 60 or 70 years, for example, and because of the way these things are structured, the longer the derivative, the greater the potential cost. Similarly, like I was saying earlier, these LOBO loans have got these embedded complex interest rate call options. If the council wants to get out of these LOBO loans, they basically have to go to the bank and repurchase these call options that they sold. Whether they knew they sold them or not is a separate issue. They have to repurchase them and that adds to the cost as well.

Q15 Jo Cox: Could you just clarify the differential with the exit fee? You mentioned 38% and 90%.

Abhishek Sachdev: From the data we looked at, which was last year's data, looking at all of the redemption costs from the PWLB loans, we worked out that the redemption cost as a proportion of the principal loan amounts was 38%. Doing a similar exercise looking at the LOBO penalties and the redemption costs versus the amount of the LOBO loans, it was above 90%.

Q16 Helen Hayes: How long are the gaps between break clauses in a typical LOBO deal?

Abhishek Sachdev: The ones that we looked at are typically about five years, in terms of the banks being able to ask for the repricing of the loan.

Rob Carver: If there is something like a five-year period in the initial part of the loan where there is no break clause possible, then it would be callable every five years thereafter.

Q17 Helen Hayes: Does a local authority have to wait for the lender to change the rent before they can exit? Break clauses could pass by at five-year intervals without the lender exercising the option to leave.

In that scenario, the only option that is open to the local authority is to pay a very high penalty fee.

Rob Carver: That is correct. The important point here is that the borrower has no option to exercise until the lender has exercised theirs. The economic value lies with the lender. They are not going to exercise their option unless it is favourable for them to do so, which would normally be if interest rates have risen a lot. If they then exercise that and the borrower thinks, "No problem. I'll just exercise my option to repay. I haven't got a break fee, so no problem at all," at that point, they are going to have to go out in the market and refinance at the much higher rates prevailing at that point.

Q18 Helen Hayes: What are the chances that a local authority ends up in a LOBO deal for 70 years, the maximum period?

Rob Carver: You are essentially asking a question that requires a fairly detailed and complex analysis of a whole bunch of interest rate information. I would need a computer, one of Abhishek's spreadsheets and about half an hour to give you an answer on a specific deal. It just depends on what happens to interest rates. There is also a chance that a local authority could be stuck in a loan where the interest rates are ratcheting up, and at each ratchet-up they are staying in the loan because they think, "Things might get better." Sorry, it is a very long answer, but it is an important point.

Let us say they are in a LOBO where they are paying 4.5% and that looked a great deal when they took it out, because the PWLB rate was 5%. If interest rates then rise to, say, 6%, the bank might say, "All right, we'll increase your rate to 5.5%". They might think, "I am still getting a good deal here; I will stay in the deal." Five years later, it goes up again another couple of per cent, and so on and so forth. If interest rates go up in a particular way and the bank is keeping it at a level just below the current interest rate level, which economically speaking would be optimal for them to do, then it is feasible PWLB could be stuck in the loan for 70 years, where interest rates keep rising and rising. Even if interest rates subsequently fall, they will still be stuck at the ratcheted-up level and, at this point, the lender is never going to exercise their option. They are clearly going to be stuck in it and the break fees will be enormous.

Q19 Helen Hayes: There are several scenarios where the rational thing for a local authority to do would be to remain within the LOBO, even though there may be scenarios outside of it where a better rate could be obtained.

Abhishek Sachdev: The really simplistic way to look at it is no one has that crystal ball telling them what is going to happen over that

remaining period, but what you can pretty safely say is, whatever happens to interest rates, actually the council is effectively going to be in a bit of a lose-lose situation. Whether interest rates go to 10% or stay at these low levels of 0.5%, whatever the bank does in its own rational best interest is going to be against the interest of the council.

Q20 Chair: Sorry, could I just pick you up on that? What you are saying is that, if interest rates fall, then the cost of getting out of the LOBO deal is more expensive than getting out of a PWLB deal. If they go up, under a LOBO the banks can increase the rates but, under a PWLB loan, they would not do.

Abhishek Sachdev: That is exactly why I call it a lose-lose situation, yes.

Q21 Bob Blackman: Overall during the programme you were describing the generality of LOBOs, but also some specific cases that you have highlighted. In general, the statement you have made is that LOBOs were taken out because the rates were lower than the local authorities were being offered from central Government and, on average, that is still the case. Does that mean that, generally speaking, LOBOs have actually saved local authorities a considerable amount of money?

Rob Carver: It depends on what you compare them with. If you compare them with a PWLB fixed-rate loan taken out at the same time, they looked more attractive then and they would still look more attractive now. That is basically like saying, "Well done, you have picked the second-worst horse in the race. Congratulations." You are comparing it against the worst possible thing you could have done at the time. If you had gone for a portfolio that was a mixture of fixed and floating, which is what you are generally advised to do, then it would have definitely been much worse than that.

The other point I would like to make is that when the loans were taken out, the expectation that the bank had was that they were making a lot of money out of it. Therefore, the council must be losing a lot of money. I have a slightly more nuanced view than Abhishek, because I can describe to you scenarios in which the local authority will do better out of the LOBO than out of certain other loans, but to know that for sure would require that you could forecast interest rates accurately for 70 years, which is a superhuman task.

Q22 Bob Blackman: Is it then fair to say that one of the issues around these is that they are long-term loans and, as you have said, interest rates are forecast to go up quite considerably? If a local authority had entered into such a scheme at a particular time when

interest rates were modest, not where they are now but more modest, and they have stuck with it, and when interest rates have ratcheted up a bit they did not exercise their option to leave, if they are in a position now whereby certain local authorities—you mentioned Newham paying 7.6% on one of them, but there are other local authorities paying a lot less, I presume.

Antony Barnett: Not a lot less.

Q23 Bob Blackman: Equally, if we are in a position whereby interest rates are forecast to increase, and they will fluctuate over a 60 or 70-year period anyway, then you can take a short-term view that you are losing a bit of money now, but the long-term view might be that you are actually saving money. I want to be clear so that we understand the issue.

Rob Carver: On average, if you look at interest rates and where they are expected to go now, you would expect a LOBO loan to do much worse than a PWLB loan. The reason you know that is that is what the break cost tells you. The break cost essentially is the expected value of that loan going into the future. The fact that it is so much larger for a LOBO loan tells you that, on average, all the kinds of derivative pricing models think that it is going to be a worse deal than a PWLB loan.

Abhishek Sachdev: I was just going to say two things. The first thing is there is nothing wrong with a council or any entity taking some fixed-rate borrowing. Remember, they can do fixed-rate borrowing with PWLBs as well. They can do fixed and floating. To protect oneself is nothing wrong. At least from my perspective, the point I am trying to make is it is fine to do fixed rate, but not via the way that these were structured in particular. Part of that is linked to the pricing.

To use a technical phrase, derivatives are a little bit like a zero-sum game. By definition, if a bank is making more profit on a derivative, the counterparty, in this case the council, has to lose out accordingly. The analysis we did, and it was a pretty painstaking analysis, showed that actually, across the country—and this is more updated than what was said on the programme—we estimated £1.5 billion was generated effectively as upfront trading income and profit from these transactions. By any standard of derivatives, because we advise corporates on derivatives, even corporates that do hundreds of millions of borrowing, that was a phenomenal profit margin to generate. That profit margin effectively rips out so much profit on day one that it is expected to work against the best interest of the authority over that 60 or 70-year period, regardless of what happens to interest rates.

Q24 Bob Blackman: Could I just ask if the cost of exiting one of these deals is fixed at the beginning in general or settled as the deal goes along?

Abhishek Sachdev: This is exactly the point. On day one, when this is first executed, the bank makes a certain amount of profit and income. In theory, on day two, to get out of the contract, the council would just have to repay that amount of profit the bank made, just like if you were to go and buy some foreign exchange from a Heathrow foreign exchange kiosk: if you bought some currency and wanted to sell it back again, you just lose the amount that you bought it for compared to the market price. As time goes on, then it is subject to what is called the mark to market, i.e. the value of these options and this derivative.

Q25 Bob Blackman: The bank will have a variable exit cost for the loan. Any local authority with one of these LOBOs at the moment will not know what they would have to pay to exit the deal. Is that right?

Abhishek Sachdev: They would only know if they asked the bank or they could ask a treasury adviser.

Bob Blackman: They apply and say, "We would like to exit this. What is the cost of exiting?"

Abhishek Sachdev: Correct, because you would need to have very specialist technical derivative pricing software to be able to price these things at any one point. You cannot go online and have a look, "What's the rate today? Therefore, let me work it out myself." That is not possible with these.

Rob Carver: Can I make a further point? Even then, let us say Abhishek's software says it would cost £15 million to get out of the deal, the bank could say £20 million and there is not really much the borrower could do, except try to find somebody else to assign that loan to, who would be willing to accept a more reasonable price.

Q26 Bob Blackman: Obviously many local authorities are saying they are doing quite well out of LOBOs. Others are saying, "Perhaps it was not such a good deal." Why is it that some are doing well and others are doing badly? Is it advice? Is it the bankers?

Antony Barnett: I am presumably going to look at the issue of advice a bit later. I do not know if the Committee has had a chance to look at the bulletin that was issued by the Chartered Institute of Public Finance and Accountancy. They are not the regulator, but effectively they produce guidance for them and they describe these LOBOs as inherently risky products. They talk about them not being transparent.

I could quote from the guidance, but it would definitely be worth the Committee reading that. They have set up a number of red flags and clearly they say that these should be a small percentage of the borrowing portfolio.

We have seen some of the cases where, for some councils, they are quite a large proportion. You might have, in the case of Newham, £563 million of LOBOs and £65 million of government loans. A lot of Newham's loans were not standard LOBOs. What Abhishek and Rob have been describing has been these standard LOBOs, but there are a lot of different types of LOBOs—inverse floaters, range LOBOs, step-up LOBOs—all which are very complicated. These guys will explain how they work. Some of them have been very costly to councils like Newham and like Cornwall, and to several other councils around the country.

Q27 Bob Blackman: One final question from me: do we know what the full extent is of the LOBOs that have been sold to local authorities?

Antony Barnett: We know there is £15 billion worth, or that is what we estimate.

Bob Blackman: That is an estimate. You said local authorities are not necessarily forthcoming in what they are borrowing.

Antony Barnett: We know that the DCLG produces quarterly figures on borrowing from councils, so we have used their figures. Nick Dunbar, who has been the specialist financial researcher behind this, who is unfortunately on holiday, with Abhishek has literally analysed about £7 billion worth of these contracts and gone through all the detail.

Q28 Bob Blackman: Sorry, just so I am clear, you are saying the market is £15 billion and you have analysed £7 billion. What about the other £8 billion?

Antony Barnett: Councils have not provided all the information. What we can say is that CIPFA, in their recent bulletin, estimated that they account for 23%. I have the quote here—in 2010, 23% of all the borrowing. We do know that what the figures from DCLG suggest is about £10 billion with British banks and about £5 billion from foreign banks. Nick and Abhishek have gone through all of these to confirm these figures are right, so we are pretty confident that it is around £15 billion of LOBOs at the moment.

Abhishek Sachdev: Of this £15 billion, based on the work that we did for the £7.2 billion, we believe that the breakage costs for the £15 billion are £25 billion. Therefore, if all the councils across the country wanted to repay all the LOBOs, they would have to pay back £40 billion, which is the 15 plus the 25.

Q29 Mr Prisk: Just to follow on from that briefly, if I may, I wondered, Mr Sachdev and indeed Mr Carver, from your professional experience, is it your view that the majority of finance officers in local authorities have the specialist skills needed to deal with this complex form of derivative product?

Abhishek Sachdev: I would categorically say that I do not believe you would be able to find a finance officer or a treasury officer in a council who would be able to accurately assess the relative risks and rewards of one of these LOBO products. I would even have to say that it does not matter if you are a qualified accountant or a chartered account at all. We deal with some very large corporates and even FTSE 250 businesses' treasurers would not be able to analyse this on their own. They would literally need a specialist hedging adviser or for the bank to explain things in a very transparent manner to them.

Rob Carver: I have never worked in a local authority treasury department, so I do not feel qualified to comment on the qualifications. The one thing I will say is that essentially the bank is taking the other side of this trade. We would not have done the trade the other way round, partly because of the losses we would have made on day one, as discussed. Also, the nature of the risk itself means it is the kind of risk that makes traders and hedge fund managers, as I also used to be in the past, wake up at night screaming. It is just horrible stuff. I do not think anyone who fully understood it would do it. That is just a personal opinion because, as I say, I have never worked in a council.

Q30 David Mackintosh: Did you give local authorities the opportunity to respond before the programme was aired, and also do you know the scale of how many local authorities are involved?

Antony Barnett: Yes, of course we did. We are governed by Ofcom, and we gave a right to reply to all the councils that we mentioned in the programme, and we put all our allegations to them. They responded and those responses were in the programme. We also sought interviews with the Local Government Association—I did not know the Chairman was involved—and they declined to be interviewed for the programme. We also sought an interview with the Chartered Institute of Public Finance and Accountancy; they also declined to be interviewed on the programme. We also asked Richard Paver, who is the Chief Finance Officer and Treasurer of Manchester, and sits on

CIPFA's treasury panel, and I think Manchester Council blocked him from talking on the record. The answer is yes, we did.

In terms of the number of councils, thanks to the work of Debt Resistance, we estimate that 250 councils have these LOBOs on their books. Again, we can provide this information to you. Some have one or small amounts; some have hundreds of millions. It is very difficult to work out, leaving aside the complexity that these guys are trying to get over, exactly what is going on there. We know that there are 250 councils with LOBOs. We know that these rates vary up to 7.6%.

David Mackintosh: Can I just clarify? Is that 250 LOBOs?

Antony Barnett: No, it is 250 councils. We know there is £15 billion of LOBOs, but we think probably 1,000.

Abhishek Sachdev: There are about 1,000 LOBO contracts.

Q31 David Mackintosh: That is quite a large number of local authorities. Is that an estimate?

Antony Barnett: Those are the ones we know have LOBO contracts, because of freedom of information requests that Debt Resistance has put out and, as Channel 4, we have done our own freedom of information requests. Certainly the producer of the programme and Nick have done them. By looking through the contracts of the ones that have replied, we are pretty confident that that is the number that have them.

Q32 David Mackintosh: Mr Carver, you said that you have deep moral qualms about LOBOs. If local authorities have saved money using them, is it a moral reason? Why do you say that?

Rob Carver: As I said, my personal feeling was that I would not do these deals if you put a gun to my head. I asked myself, when I was doing this job, why local authorities are doing them. One of the things that we might as well mention now is that, in terms of the mechanics of the market, there is a chain of fees that flow from the councils to treasury management advisers to brokerage houses, like ICAP, to advise them and protect them against potentially being mis-sold these products, or whatever you want to call it.

We were paying commissions to the brokers as well and this made me very concerned, because I did not see how the brokers could be giving their ultimate clients, the councils, independent advice when they were being paid by us. Subsequently I found out that they were also being paid by the councils as well. The brokerage fees were quite large compared with the fees we normally paid, and there was lots of

pressure always to pay higher fees. It smelt and felt to me like there was something really dodgy going on. I cannot prove that, but there is clearly a kind of moral hazard and that made me deeply uncomfortable. At the end of the day, we are dealing with councils. We were not dealing with hedge funds or other people who, in my opinion, knew what they were doing. We were dealing with local councils. As I said, I have never worked at a local council, but I just felt that, if I was in their seat, I would not do these deals in a million years, so why are they doing them?

Q33 David Mackintosh: Do you think it would be better for councils not to hedge at all?

Rob Carver: No. My personal opinion, from what happened with Hammersmith and Fulham—a while ago now, but I guess most of us still know about it—is that it would be better if councils were allowed to use derivatives, but in an open and transparent way, rather than buried within contracts in such a way that they may not understand what they are getting into. That is my opinion though.

Abhishek Sachdev: If I may add just one point to that, putting a little bit of flesh on some of those advisory numbers, an organisation called Butlers were one of the treasury advisers to the LOBO contracts. They were, in theory, supposed to go to at least two different brokers. It actually happened that ICAP owned Butlers at the time. Where Butlers were the treasury adviser, ICAP happened to be the chosen broker on 77% of the occasions. Similarly, there was another relationship involving Sector, which was a treasury management adviser. They were not owned by them, but had a financial relationship with Tullett Prebon. Again, where Sector was the treasury management adviser, we found that Tullett Prebon was chosen on 58% of the occasions. On both occasions, it is above 50%, which suggests that potentially some financial incentives were skewing some of the relationships.

Antony Barnett: Can I just add to one of the points, and explain the brokers' fees? It is worth remembering that these brokerage fees are significant. This is public money. We estimate from the freedom of information requests that councils paid £25,000 for a £10 million LOBO, so overall we are talking tens of millions in taxpayers' money being paid to brokers' fees, ICAP and Tullett Prebon.

Rob Carver: And other brokers.

Antony Barnett: And other brokers. Those brokers were also getting paid commission on the other side. Rob was paying them. If the council would have chosen to go with a government loan, I think they

charge £75 per loan, so that is the difference. What we have found out in the investigation is that all that commission, from Rob or the banks going into the brokers, was then being passed back to the advisers, who were being paid by the council to give advice on which way to go. Certainly when I began this investigation, when I started hearing from experts about this relationship, that was one of the areas I wanted to bring forward as part of the investigation.

Q34 David Mackintosh: I think we will come on to that. Do you think it is as risky to hedge or bet on interest rates?

Abhishek Sachdev: To answer your question in terms of whether they should hedge at all, it is completely sensible and appropriate for councils to hedge, just like it is for small businesses, large businesses or individuals who take a fixed-rate mortgage, but it all comes down to having sensible transparent advice about what you are doing. In other words, are you doing the right proportion of your borrowing? Are you doing it for the right period of time? Like I said, PWLB loans average at 22 years, for example. Some were as short as two years or five years. If you are doing 100% of your borrowing for 70 years long, all on one type of instrument, I would say you are adding financial risk to your portfolio, rather than taking it away.

Rob Carver: Can I just add one point? The key thing about LOBOs is they are a very poor hedge if interest rates rise, unlike a normal fixed rate, so they are kind of a hedging in sheep's clothing. They are not a very good hedge at all.

Q35 Helen Hayes: I wondered whether you found any outlier authorities that did seem to have interrogated these deals, decided that they were too risky and adopted a different approach to their borrowing, knowingly so rather than by accident.

Antony Barnett: To my mind, no is the honest answer. We spent a long time interrogating the LOBO contracts and speaking to experts. We spoke to lots of councillors. I know many of you were councillors, and I do not know, when you were councillors, whether you knew your council had LOBOs. Certainly we spoke to Fiona Ferguson of Cornwall on the programme, who was the leader of the Conservative group on the council. She was a former tax partner at the City of London, so she knew her way around the City. She had never heard the term "LOBO" before. In fact, I think when I spoke to the Chairman, who has scrutinised local government for many years, he had not heard the term before. It was quite a task getting all the information, so the answer is no.

Q36 Julian Knight: I was interested in picking up something you mentioned before. 250 councils responded to your requests for freedom of information.

Antony Barnett: I can be more specific on the numbers. I cannot remember which ones responded. We got information from treasury management bulletins and other government documents, but we are pretty certain it is 250. I can give you the exact details.

Julian Knight: Around 1,000 LOBOs is what we are talking about from that cohort.

Abhishek Sachdev: Yes.

Q37 Julian Knight: Just looking at the potential black hole here in terms of exit penalties, in terms of the potential for interest rates to go through the roof, how many of these councils do you think are in real peril from this situation, of the 250?

Abhishek Sachdev: The £25 billion mark to market breakage cost is only something that the councils would be liable for if they wanted to break out of it and come out of it early today. Unless they need to get out of it, they do not need to pay that number. Yes, it is a black hole, but it is not something that they physically have to pay, unless they cancel it early.

Rob Carver: But the situation they face is that if the interest rates are ratcheted up gradually over time, more and more of their budget will be sucked into repaying interest rates and, before you know it, you essentially have Greece.

Q38 Julian Knight: Do you think they are burying their heads in the sand over this?

Abhishek Sachdev: I think some of these council officers will find it quite difficult, within their own little scrutiny committees in the councils, to face questions from councillors about this. At the same time, my personal view is that, for some of these council officers, if they did the right thing by taking specialist treasury advice and went to one or two of the leading firms doing this, then you pay your adviser and you trust them to do the right thing, because they are the experts and they are the ones who have the financial software, but if they are the ones getting kickbacks, commissions and things, that is where some of the fault and responsibility lies.

Q39 Julian Knight: Finally, I have one question to you, Antony, in terms of feedback since the programme has gone to air. Have you had

any councils approach you on the programme or themselves express any disquiet? Have you heard anything extra that was not in the programme, when it comes to this black hole?

Antony Barnett: The short answer is no. There have been some councillors who have approached us with some concerns, some of which did not feature in the programme. There have been a number of local press reports but, no, I have not had a council. We obviously had a statement from Newham, from Cornwall and from Walsall, but not since the programme.

Q40 Alison Thewliss: RBS has said that it does not treat local authorities any differently from other customers, and made the comparison between large corporate firms and what they get into, as compared to local authorities. I just wondered what your view would be. Should local authorities be treated differently from large corporates and other organisations?

Abhishek Sachdev: In terms of RBS saying they treat them differently, from looking at the numbers, I think they treated them worse if that is what they mean, because they took more profits. There are two things here. First, large corporates themselves have also entered into derivatives that they did not understand. We know SMEs have had this redress programme, about which I have helped advise some of your colleagues in the Treasury Select Committee. What does not feature so much in there is that there are some very large corporates, even ones that have borrowed a few hundred million pounds, which do not understand complex derivatives as well. From that perspective, even corporates have suffered from that too.

This point about sophistication is interesting. The regulator takes an interesting view here, because the FCA actually commented on this, saying that councils are essentially sophisticated borrowers. I do not know where this “sophisticated” word really comes from, because it is not a regulatory term as such. They may be relying on the SME redress scheme that was out there, which has non-sophisticated and sophisticated businesses. My view is, forgetting the labels you attach to this, whether you are a council or a large corporate, if you are being given these kinds of products and you are not being provided them in a transparent manner, there is no way you are going to be able to understand them.

Q41 Alison Thewliss: Do you think that perhaps the councils should be treated differently when applying for these loans? Should they be allowed to take them out in the same way?

Abhishek Sachdev: It is interesting. It is the point that Rob made earlier. There is this issue about whether councils should be allowed to enter into derivatives. From what Eric Pickles did in 2011, they are

now allowed to enter into derivatives. Yes, if they are allowed to enter into derivatives, then at least things could be done more transparently. If they are done more transparently, in theory, one could use the rules set by the regulator to say, "Look, bank, you did not follow XYZ rules." At the moment, whether that is successful or not I do not know, because the regulator might still say, "You are big enough and ugly enough to take care of this yourselves."

On the other hand, what we have at the moment is a worse situation where the regulator itself will probably say, "These councils have not entered into derivatives", because they have been effectively embedded or hidden underneath the loan. They are subject to the worst part of it and they do not get the protection of it, because it is not a transparent product, so they are in the worst situation.

Rob Carver: May I add something? There is a nice analogy with the mortgage market. I have a fixed-rate mortgage and it has a derivative embedded within it. I have absolutely no problem with that, because I took it out in a competitive market, it was properly regulated and I got proper advice. If I as an individual can effectively have an embedded derivative, I do not see why a council should not. They should understand it and it should be properly regulated.

Q42 Mary Robinson: Could I just ask a supplementary? I have heard the term "sophisticated consumer", if you like, used in terms of swaps and also when people are claiming compensation. In terms of it being used relating to local authorities, are we looking at maybe getting into grounds where compensation claims may be made? That "sophisticated" terminology would lead towards that.

Abhishek Sachdev: Just a slight declaration of interest here: I helped to pretty much instigate this review scheme for small and medium-sized businesses. In fact, we have been paid by the FCA to advise them on this scheme very early on, three years ago. That is where this "sophisticated" label comes from. Do I believe that the regulator is going to look at some sort of redress scheme for this? The answer is I do not know.

What I do know is that, when the regulator was first approached about this, to do with small businesses, they effectively buried their heads in the sand. It was through the interactions of media pressure—at that time it was the *Telegraph*—and also various different MPs, such as Guto Bebb MP and his fellow MPs, who put pressure on the FCA to do something. Do I think that political pressure and media pressure can make a difference? Yes, I do. At the same time, one has to remember we have added difficulties here of dealing with much larger sums of money. One has to look at the implications of that, which is above my

pay grade. The second thing is that, again, the first challenge you are probably going to face is that the FCA, if you bring the new Chief Executive in front of you, is going to say, "These things are not derivatives. There is nothing to see here. Move on." Those are the same issues that your colleagues in the Treasury Select Committee are facing, when you have corporates that have been sold these loans with embedded derivatives too.

Q43 Mary Robinson: Thank you. I just wanted to clarify that use of the terminology. In the programme, it was said that financial advisers looking at those relationships were paid by the local authorities and the banks. Were the financial advisers taking a cut of the banks' profits on deals they had negotiated or were the advisers owned by the same companies, making the deals at the end and therefore the banks profited at both stages?

Antony Barnett: Are you talking about the treasury advisers? The evidence that we saw in the programme was that the financial advisers sector, for example, was indeed getting a chunk of the commission that the brokerage earned from the bank. We heard from some sources that it was about a third, 33%. Rob might be able to tell you the type of fees that banks were paying to the brokers. Obviously in that case, a third of that was then going back to the treasury advisers. In the case of ICAP and Butlers, I do not know. The Competition Commission report in 2011, which we looked at, set out these relationships. They redacted the amounts of money that both Sector and Butlers were earning in this way, but the commissions were definitely being channelled back.

Q44 Mary Robinson: £1.5 billion is generated as upfront profits. That is before we even begin to enter into the transaction. That compares to the £15 billion of borrowing. Would that be something that would be appropriate?

Abhishek Sachdev: No. That £1.5 billion is massively excessive. If you had a corporate or somebody who knew what they were doing transparently, they would never ever agree to those kinds of odds or that kind of deal because, as I said earlier, it is a zero-sum game. The more profit the bank makes, the greater the expectation is of the amount of money the council is going to lose over that period of time. That is 10%; that is far too high. That is why all these different fees to brokers, commissions and all these different things can be afforded—because of the excess level of profit there.

Q45 Chair: Do you think the advice that the local authorities were getting was worth anything in these cases?

Abhishek Sachdev: We are independent treasury advisers ourselves, so it is a difficult one to answer.

Chair: You should know very well whether they were given proper advice.

Abhishek Sachdev: I agree. These are the same advisers who I believe this Committee—but correct me if I am wrong—also criticised in 2008, following investing money in Kaupthing, for example. I believe it was this Committee that called for the regulator, the FSA at the time, to investigate some of these treasury advisers. Some of the data shows that, when you have a broker and a treasury adviser owned by the same company, there is a greater percentage chance that they are all going to be using each other. I just do not know how you can fundamentally give independent advice when you are being paid by a third party, and the council is actually paying you to give them independent advice, because they cannot do this themselves.

Antony Barnett: I am not here to advocate any particular firm, but when your Committee last looked at this issue, I think in 2008 after the Icelandic bank collapse, you did indeed question three treasury advisers about that. There was one firm, Arlingclose, that does not take commission or fees, and who are experts in financial advice. They have not, in the last 11 years, recommended councils take LOBOs, or very rarely. Certainly when we spoke to them, they said that they thought that they did not provide good value for councils, so it is not all advisers.

Q46 Mr Prisk: The Icelandic bank is a good example where, as we know, both sides of the deal were paying advisers. There is this issue of conflict that you have all referred to. Is there evidence that, today, advisers are continuing in this means of operating—in other words, drawing funds both from making the advice but also effectively from the implementation of these particular deals?

Antony Barnett: Today, the answer is I do not know, because we spent our time concentrating on the period between 2003 and 2011, when these LOBO contracts were drawn up. We know that the brokers are being paid by both the councils and by the banks. In more recent cases of inverse floaters that were set up by RBS, we do know they are being paid both ways but, in terms of the advisers, the honest answer is that I do not know. I will be honest: we can only tell you about the contracts we looked at. Maybe that is a question for Capita, which now owns not only Sector but Butlers as well. Maybe they could tell you that. I do not know.

Q47 Mr Prisk: I do not know whether your colleagues, Mr Carver and Mr Sachdev, are able to say, from their professional experience and contacts, whether you believe this is still a current practice.

Rob Carver: I honestly do not know the answer to that question. I do not have any more contact in that world that could tell you that. You would have to ask them yourself.

Abhishek Sachdev: I would be surprised if the level of commissions and brokerage fees are as high as they used to be, if they are continuing. If they are continuing, I would expect them to be a little bit more opaque than they used to be, because there is a lot more transparency in general in all parts of the financial world. The brokers have changed hands. The banks are not selling so many of these products anymore. Lots of different things have changed. The regulatory regime has changed. The interest rate framework has changed. We have had all sorts of manipulation of all sorts of different indices so, because so much has changed, I would be surprised if there are as great conflicts today, but I cannot give you any hard evidence of that, I am afraid.

Mr Prisk: You would be surprised if the practice was continuing.

Abhishek Sachdev: I would be surprised if it was continuing in the same way that it was before.

Q48 Mary Robinson: Just one more question on this: I know that, even during that timeframe, the FCA was regulating that, if you were an independent financial adviser, let us say, there would be rules of disclosure, particularly with regards to commission, so any commission that was going to be charged would be disclosed. Were the same rules in place when local authorities were entering into these transactions?

Abhishek Sachdev: Yes, absolutely. This is one of the most frustrating things. Like I said, we are FCA-authorized ourselves today, and we expect the FCA to come down on us like a ton of bricks if we were to do this kind of thing today. That is why I think this Committee called for the FCA, or FSA at the time, to investigate these brokers. The regulatory rules have changed a little bit in time. There was something called MiFID, which came in, in November 2007, but largely speaking the rules are fundamentally the same, and they are pretty straightforward, common-sense rules. Are you explaining things to your investor in a clear, fair, not misleading manner? Are you giving enough information so they can make an informed decision? They are pretty common-sense kinds of things. You are right; these FSA-regulated entities should have been abiding by those rules.

Q49 Chair: We have had a response from the FCA and they actually say, "Because it is commercial lending, activities related to making these loans, including arranging, advising or entering into a loan agreement, do not typically constitute regulated activities."

Abhishek Sachdev: This, I am afraid, is what I was alluding to earlier, which colleagues of yours in the Treasury Select Committee have been banging their heads against. The FCA's view is that these are just commercial loans. They are just a regular loan; you are signing a contract and, if you are not happy with it, go deal with a contract lawyer. The point is that my view is that these are commercial loans, but they have within them or they subject the council to the risks of a derivative and, therefore, these should actually be treated as regulated products. That is a very big debate going on, like I said, for corporates as well.

Q50 Chair: Going back to the other issue we had with the payments going to the advisers from the brokers as well, presumably the advisers entered into a contract with councils. Have you seen any of those contracts? Would they not cover this issue? Would they not say, "You are giving advice and you should not be receiving any payment or commission from any other organisation"?

Abhishek Sachdev: It is interesting. I think Antony can probably give a quote about what one of the advisers has said, but you will probably find that these advisers are probably going to say things just as banks do. They will act as an adviser and they will have all over their literature and things, "We are your adviser." In the small print, they may actually say, "Technically, we are just providing you information. You are making your own informed decision and we aren't providing you any advice," even though they are effectively selling themselves as advisers.

Antony Barnett: I do not have a quote. Clearly it would be interesting to see the contracts that the treasury advisers signed with the council.

Q51 Chair: Have you seen any?

Antony Barnett: I have not seen any from that time. I think in the last Committee report into this, you got some of the contracts for investment purposes, but we have not seen them. We actually asked for them ourselves and others asked for them under freedom of information, so maybe we will be getting them soon. We certainly did not get them in time for the programme. I have spoken to one very senior figure in local government who, to quote off the record, was astonished that these commissions or these broker fees were being passed back to their advisers. I do not know what the standard terms were and whether or not there is anything in the print that says that. I

do not know; I have not seen enough of these contracts to take a view on that.

Q52 Chair: I just have a couple of points to finish with. In terms of the amounts, the Local Government Association have said to us that they believe the total amount of LOBOs was £8 billion, not £15 billion. You would expect they might have some idea of what their members are doing, so why the difference?

Antony Barnett: We asked the Local Government Association many times to give us a figure, which I have to say they declined. You would have to ask them. I will quote from the CIPFA document, which came out in April, which gave the value as £10.9 billion. That is what CIPFA said. Nick Dunbar and Abhishek have gone through these contracts in great detail and, if you compare them to the Government figures, most of the long-term borrowing that the Government list with banks is indeed LOBOs. That is why we are confident that it is something like £15 billion. There is also an issue about the way that they are defined. Some of them are just talking about UK banks, but we know that there was a chunk that was with foreign banks. If the Local Government Association want to provide the figures, we will have a look, but we certainly asked them for that and they never came back with anything.

Q53 Chair: Just in terms of the cost, you mentioned Walsall Council has said that, effectively, the banks have made £1 million on the first day of the deal. How did you calculate that £1 million?

Abhishek Sachdev: The short answer is that you need some pretty sophisticated derivative pricing software to do it. It is not a calculation I can just explain to you in terms of numbers like that, I am afraid. What happens is you have pretty complex derivative pricing models, where the information is inputted. The model we used is Bloomberg, which is the largest internationally recognised financial calculation system, which is used at the High Court for lots of different reasons. I am very happy and confident to share the calculations that we did with the Committee and have this checked by other people, but effectively that is what the initial mark to market was on the day this was sold and we believe that is the trading income that the bank generated at the time.

Chair: I am still not absolutely certain that I could explain that to someone else, if I was asked.

Abhishek Sachdev: It is the expected gain that the bank would have. The mark to market on that day one is the expected gain that the bank would aim to have for their entire period, but the banks take it all upfront. How it is calculated is that into this derivative pricing software

they have models looking at data for the next 60 or 70 years. They have option pricing models. All of that data is put into the system and effectively it spits out a number, which gives you the £1 million.

Q54 Chair: It is not something the bank can actually get hold of in the first day, is it?

Abhishek Sachdev: Yes, it is. It is something that they would have actually paid out in bonuses and in commissions to their staff on the day they did it, yes.

Rob Carver: It would have been booked as income under accrual accounting, if you are familiar with that, on day one. The actual money comes in over a number of years—in fits and starts, if you like—but the economic value of the deal can be booked to the bank's trading income on day one, under accrual accounting.

Abhishek Sachdev: The bank would have reported it in its annual accounts at that year and it would have paid out bonuses to all its investment banking staff, at the end of that financial year, based upon the income for the whole 70 years, taken upfront on day one.

Rob Carver: The broker's commission would have been paid as well, based on the value of that.

Chair: That would have been paid upfront.

Rob Carver: That would probably have gone out on day three.

Chair: And presumably on to the advisers as well, for their share.

Abhishek Sachdev: It might take a week or two to flow through the system, but yes.

Q55 Bob Blackman: Are you aware of any local authorities that have paid these high exit fees to get out of these loans?

Antony Barnett: I am not. Again, Nick—who is not here—looked at that. It strikes me that we did talk about one. I can go back and we can provide it to you. Was it Redcar? I do not want to put any false information into the public domain, but there was certainly one that we think might have done, wrapped it all up and refinanced it, but I would need to check. No is the answer.

Rob Carver: On the refinancing point, on quite a few deals the interest rates look really bad. What has happened there is the bank has taken one or two, or maybe a dozen, existing contracts in which there is a big mark to market loss for the council, and they have almost rolled it over

into one new loan to reduce all your monthly payments to one easy instalment.

Q56 Bob Blackman: During your research, did you encounter any councils that have decided to challenge these exit fees in law, as an unfair contract term?

Antony Barnett: Not the exit fees, but I do know, through talking to people, that there are people considering potential legal action on the grounds, we were told, of things like material non-disclosure, where councils may not have been aware that their advisers were getting money from these LOBOs. Yes, there is beginning to be an awareness, certainly in some councils, that there might be some grounds for legal action but, as I said, I do not know where we are.

Abhishek Sachdev: We act as expert witnesses for a number of corporates that are taking or have commenced legal proceedings against their bank for the same sort of issue. You will potentially see some interest in that from some of the councils in the UK, because some of the British banks—I think was discovered by Joe Lynam in the *Newsnight* programme a couple of years ago—after they were not allowed to sell derivatives to our councils, went abroad, being an entrepreneurial bunch, and sold to Italian local authorities and other countries. Those councils have taken legal action, like the City of Milan for example, against their banks. Again in America, you have the City of Detroit and other states that have taken action against their banks for entering into these products as well.

Q57 Chair: The big issue is whether local authorities in the future should be prevented from entering into these sorts of loans.

Abhishek Sachdev: I think that local authorities should not necessarily be prevented from entering into any specific type of loan or derivative, per se. I just think that everything that they are provided should be done in a transparent manner and the advisers they turn to should be conflict-free. I would not want to be too prescriptive about what councils should enter into.

Chair: And these sorts of loans should be regulated.

Abhishek Sachdev: Absolutely, yes, I believe they should be.

Q58 Chair: What about the CIPFA code you mentioned? Do you believe that these loans are actually in breach of the CIPFA code of guidance?

Antony Barnett: The CIPFA code is quite wide. I would like you to have a look at it. It is very difficult for me to judge without all of the information whether they have been in breach. It is something that you would need to ask CIPFA, really. Certainly they have made a number of suggestions, which are on this bulletin, that they should be a small percentage of the maximum, that the council should know the product; otherwise do not enter into them. They set out very clearly the problems with lack of transparency and the high risk attached to these loans. It is probably a question for CIPFA, rather than me.

Abhishek Sachdev: This recent bulletin from CIPFA again is very short. It is only a couple of pages long, so I would well recommend that you guys read it. It was dated April 2015 and there are a lot of health warnings on that about these products. I would think it would be interesting to have a look at what the CIPFA guidance has been for the last 10 years, for example, on these products. Have they only just started warning about this or have they been warning about this for all these years?

Q59 Chair: Finally, Newham gave us some information and one of the things they said, in terms of balance of portfolios, was that their portfolios were much more balanced until the Government wrote a lot of their debt off with the HRA reforms and the element of debt that was written off was actually the PWLB loans they had. Therefore, their portfolio became unbalanced through an outside intervention, which was a proper intervention because Government reformed the HRA, which was good. Is it mostly true that councils are not always master of all these things and external factors happen that they cannot control?

Rob Carver: What proportion of their total debt was written off then?

Chair: They said about half, I think.

Rob Carver: LOBO loans have gone from being perhaps 12.5% to being a quarter, say, or something like that. I personally think 12.5% is still too high, but that is a personal opinion.

Antony Barnett: Were you talking about Newham, Chairman?

Chair: Yes.

Rob Carver: Newham would have been much higher.

Chair: It was probably about half before and it is probably about 90% now.

Rob Carver: If they had half their loans in LOBOs, to me personally, that is still way too high and also well above what CIPFA say it should be now.

Antony Barnett: Obviously we did look at Newham in the programme and we have got the list. They took out a lot of inverse floaters and range LOBOs. From 2008, some of the interest rates that they have been paying on their loans are 6.8%, 6.8%, 7.0%, 7.2% and 7.3%. There was a £50 million loan they took out in 2008, on which they are paying 7.3%. There is a £30 million loan that they took out in 2010 at 7.6%. That is post-crash. There are quite high rates of interest on those loans.

Abhishek Sachdev: Just to be clear with Newham—and it happens to be Newham, for example—some of the LOBOs they took out were some of the worst possible ones you could have, these inverse floaters, which make even the other LOBOs look half-attractive. That is how bad some of the inverse floaters were.

Q60 Alison Thewliss: In terms of regulation, you mentioned the terms of these loans being over 70 years. Would that be something that you would think ought to fall under the scope of any regulation, because it is a very long period to take out a loan for?

Abhishek Sachdev: It is an interesting point, because the way that the LOBOs were structured and the way the banks were offering these products meant that they necessarily had to be for quite long periods of time. They were effectively buying these call options off the councils. They could only use the value of these call options if they bought enough of them. That is why you would not really see these LOBOs for 10 years, 15 years or 20 years. You would see the long-term ones.

Do I think that that should be regulated specifically? Again, I do not think that one needs to be prescriptive and say that you should not be doing a 70-year loan, for example. I think it is all about individual suitability and appropriateness for that council. There is nothing wrong with 70-year loans. There is nothing wrong with two-year loans. Again, are you going into it eyes wide open with full transparency? Is it the right proportion of your portfolio? Having some two-year debt, some 10-year debt and a little bit of 70-year debt is okay, because you have a balanced portfolio.

Q61 Alison Thewliss: Things like PFI loans were maybe over a 25-year period, and that was considered quite long: to tie the hands of not only your own administration but future administrations for such a long period seems quite—

Abhishek Sachdev: I agree. Taking a 70-year LOBO means you are effectively taking a 70-year view on interest rates. I am an economist myself, and I will tell you there is a reason why it is called the dismal science. Economists are not able to forecast anything beyond six to 12 months, and even then it is still a finger in the air. Saying that these councils are taking views on 70 years is somewhat ludicrous.

Chair: As a one-time economist, thanks very much indeed for coming in and giving us evidence this afternoon. It is appreciated. That brings us to the end of the public proceedings this afternoon.