

LAI0044

Written evidence submitted by the Local Government Association

Thank you for the opportunity to give evidence to the Committee at its hearing on 11 May. I thought it would be helpful to follow up some of the points discussed on local authority commercial investments, the prudential code for local authority capital finance and the proposed changes to the Public Works Loans Board (PWLB) lending arrangements.

Much of the discussion at the hearing focussed on local authority investments undertaken solely for yield and funded by borrowing from the PWLB and how to prevent this happening in future. Changes were made to the Prudential Code in 2017 and 2018 that clarify that councils should not “borrow in advance of need”. As councils adhere to the code, these changes will move councils away from borrowing to fund commercial investments.

It is important to ensure that any further reforms to the system are proportionate. The National Audit Office (NAO) report (page 33, figure10) identified that 38 per cent (£2.5 billion) of local authority commercial property investments between 2015/16 and 2018/19 were outside of local authority’s own areas, and of these about £1.4 billion (just over 20 per cent) were in another region; of this £400 million was made after 2017/18, when changes were made to the Prudential Code that clarified that “borrowing in advance in need” is against the code. These out of region investments are the ones that will more likely have been bought for yield only. The NAO report did not identify whether these were all funded by PWLB borrowing (but it did suggest that this was unlikely) but it did identify that in the same period, councils borrowed over £21 billion from PWLB to fund council capital expenditure, which totalled over £75 billion in the same four-year period. Out of region investments accounted for less than 2 per cent of all capital expenditure and even if they were all funded from PWLB borrowing then this would have been less than 7 per cent of PWLB activity in those years (and only 2 per cent after changes were made to the Prudential Code). In total, local authorities in the UK currently have over £85 billion of loans outstanding with PWLB. As I said at the hearing, investment solely for yield is something that only a small number of councils have done, and lending to fund commercial investments is and has been a very minor part of the PWLB’s activity and a minor part of local authority borrowing. Councils are required to act within CIPFA’s Prudential Code, and no council has been accused by its auditors of ignoring the Code. It is for councils to decide what borrowing is affordable at local level and this is a function reserved to the Full Council, with the advice and guidance of officers.

In addition, HM Treasury is currently consulting on future lending arrangements for the PWLB. The new arrangements are being proposed to prevent local authorities borrowing to fund the purchase of commercial investments. While the aim is understood, there is a concern that an unintended consequence of the proposals will be to restrict local authority access to borrowing for mainstream capital priorities such as housing, infrastructure and regeneration, long term priorities that will be crucial to get local economies moving once the country emerges from the Covid-19 lock down. Under the new proposals for future lending by the PWLB, any council that is going to make a commercial investment for yield (even if this is not funded by borrowing) will be barred from any other borrowing from the PWLB for a year. This will mean that such councils will not be able to borrow from the PWLB to fund priorities such as housing, infrastructure and regeneration. It does seem that the impact of the way the proposals have been framed is disproportionate to the presenting issue. There must be a better way of achieving the same policy objective that does not put obstacles in the way of priority schemes, and we would welcome the Committee raising that with Treasury and with officials at the Ministry of Housing, Communities and Local Government.

I hope this additional update is helpful and provides further clarity ahead of your session with the department. Please do not hesitate to get in touch via (iredia.oboh@local.gov.uk) if you have any further questions as part of the Committee's considerations.

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