Public Works Loan Board: future lending terms
GMB Union submission

Introduction

This submission is made on behalf of GMB, Britain's general union. GMB represents more than 600,000 workers in both the public and private sectors. We are one of the largest unions in local government services.

GMB believes that the Public Works Loan Board and its predecessors have played an invaluable role over many years by providing fast and affordable access to credit to fund capital investment. It is vital that changes to its operation are taken with great care. We welcome the decision to extend the consultation's response period and, especially in light of the economic damage inflicted by the coronavirus outbreak, we urge the Treasury to reconsider its proposals.

As most of the consultation questions are intended to be answered by individual local authorities, this response makes some wider comments about the financial position of local government and our general view of the current proposed changes to the PWLB, before addressing a small number of specific questions posed.

Impact of the coronavirus outbreak on local authority finances

We recognise that this consultation was issued before the economy was locked down. Given the profound deterioration of local government public finances since 11 March, we believe it is appropriate to comment on the need for additional financial support for local authorities.

Local government faced significant financial challenges even before the coronavirus outbreak hit. An estimated 908,000 jobs were lost in UK local government between 2010 and 2020 – a reduction of 31 per cent.[1] The National Audit Office estimates that the net spending power of English local authorities fell by 29 per cent in real terms between 2010/11 and 2017/18 (while central funding was reduced by 49 per cent).[2] Over the same period, the number of adults aged 80 or over has risen by 15 per cent.[3] At the time of the March Budget, the LGA estimated that local authorities faced a funding gap of £6.4 billion by 2024/25 (including a

£3.9 billion gap in social care funding).[4] The real value of our members' pay spine has been devalued by more than a fifth on average over the last decade.[5]

In addition to these existing pressures, the coronavirus outbreak has had significant negative impacts on local government finances. Alongside additional costs in some areas, revenue from charges, taxes and rates, and investments has fallen sharply. The Department's own figures suggest that English local authorities' raised expenditure and lost income created a new £3.2 billion funding pressure between March and May.[6]

The LGA calculates that local authorities face total additional costs of £4.4 billion this year. Even after accounting for central government support, local government faces an unsustainable net long-term funding gap of £7.4 billion.[7] Unless additional financial relief can be obtained, we expect that a significant number of proposals to cut jobs and services will be brought forward over the coming months.

The PWLB and the opportunity for providing financial relief

Short-term revisions to PWLB rules should be made to reduce local authorities' exposure and improve their liquidity. Under current rules, PWLB loans have a minimum repayment period of one year, which leaves local authorities reliant on commercial lenders for shorter-term financing. The one year lower bound on loans should be removed at least for the period of the coronavirus outbreak.

Interest payments alone in 2020/21 come at a cost of £3 billion – roughly equivalent to the total value of the support package announced by the MHCLG to date. To provide immediate relief to the sector, repayments on PWLB and interest repayments should be suspended for an initial period of at least a year, subject to a review towards the end of that period.

Local authorities' PWLB balance outstanding and interest repayments[8]

	Principal Balance Outstanding at 30 June 2020	Interest Repayments in 2020-21
England	£70,230 million	£2,403 million
Scotland	£10,572 million	£418 million
Wales	£4,625 million	£194 million
Total	£85,427 million	£3,014 million

The question of whether PWLB debts should be cancelled outright has attracted significant attention and debate. There is a clear recent precedent for cancelling public sector debts as a financial aid measure, following the cancellation of £13.4 billion of debt held by NHS bodies.[9] On the other hand, it has been argued that the distribution of PWLB debt is not even between councils, nor is that distribution proportionate to need (according to the NAO, 14 per cent of councils accounted for 80 per cent of local authority expenditure on commercial properties between 2016/17 and 2018/19[10]).

GMB's view is that councils must receive additional short-term funding to preserve services, be fully compensated for losses associated with the coronavirus outbreak, and receive a long-term funding settlement based on need. This would be best achieved based on analysis of the returns to a mandatory version of the coronavirus financial management reporting survey; the removal of the 5 per cent cost compensation cap, with covered losses raised from 75 per cent to 100 per cent; and a Comprehensive Spending Review settlement that provides a sustainable future for local government.

Time is of the essence of the essence if such a solution is to be secured. Jobs and services are under threat now. Without central intervention, the financial position of local government will deteriorate progressively over the coming months. If immediate preparatory action is not taken, and certainty over future budgets is not forthcoming, then there is a real risk that a fairer and weighted approach to securing the financial position of local government will no longer be practicable in time to save jobs and services. In such a scenario, while there are acknowledged limitations to the approach, the decision to cancel PWLB debt should be taken on the basis that it would be simple to administer, and would deliver immediate support to local authorities.

Comment on the Treasury's proposals

GMB is concerned that the current proposals represent a fundamental departure in the relationship between central and local government. Under the proposed system, the ultimate power to approve investment decisions will – in effect – be transferred from councillors (who are, at least, subject to direct democratic scrutiny and accountability) to officials of the Debt Management Office. Local authorities as a whole will be punished for what the National Audit Office has demonstrated to be (and CIPFA has described as) the decisions of 'a small number'[11] of councils.

Despite the inclusion of examples, objective criteria for identifying the purchase of commercial assets primarily for yield are not set out (and it may not be possible to establish them). In our view, it is likely that DMO officials will be obliged to make intuitive and subjective, and therefore inconsistent, judgements in marginal cases. This uncertainty will likely have a chilling effect on local authorities decision-making processes. Consequently, we believe that councils will be less likely to invest in their local economies, and more likely to seek to maintain budget surpluses by cutting jobs and services. This would be harmful to the Government's stated agenda of making councils responsible (and liable) for local economic conditions, as reflected in the business rates retention policy.

While GMB supports the principle of careful financial management, we believe that there are better and more proportionate ways of curbing irresponsible speculation by a small minority of councils, as set out below.

Question 4: Do you think the proposal described in paragraphs 1.24 to 1.28 would be effective in achieving the aim set out in paragraph 1.22?

The Government's aim (as set out in paragraph 1.22) 'is to develop a proportionate and equitable way prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now.'

GMB believes that the Government's proposals are neither proportionate nor equitable. The proposals amount to a heavy-handed and ill-defined process that will inhibit local government investment. Specifically, we think it is likely that the proposal to bar local authorities that make such spending decisions from accessing PWLB credit for a year will lead to an overly risk-averse culture among Section 151 officers. As one authority has commented, in the absence of clear criteria and processes, the proposals are 'very onerous and financially damaging.'[12] As noted above, the proposals are not equitable: most local authorities will be subject to unnecessary and detrimental restrictions because of the identified actions of a small number of councils.

Question 9: Do you have a view on when in the calendar or financial year this new system should be introduced?

As argued above, GMB believes that the proposals in their current form would likely stifle local investment decisions and stall the economic recovery. If the Treasury resolves to impose these changes without amendment, then implementation should be delayed until after the current crisis has passed.

Question 16: Would these proposals affect the ability of LAs to pursue innovative financing schemes in service delivery, housing, or regeneration?

We believe that they would, given the uncertainty over investments' classification.

Question 20: Do you have any views about the implications of these proposed changes for people with protected characteristics as defined in section 149 of the Equality Act 2010? What evidence do you have on these matters? Question 21: Is there anything that could be done to mitigate any impact identified? Question 22: Is there anything else you would like to add on this issue?

It is well established that people who share protected characteristics have been disproportionately affected by reductions in public spending and cuts to public services since 2010.[13] These inequalities have been brutally exposed during the coronavirus outbreak.

Local authorities representing areas that contain higher than average numbers of persons who share protected characteristics are more likely to require recourse to public borrowing for the purposes of regeneration and supporting the local economy. It should be possible for the Treasury to analyse past patterns of local authorities' borrowing requirements broken down by area demographics, and it is disappointing that no Equality Impact Assessment has been prepared as part of this consultation.

Q33: Should HM Treasury introduce a process by which borrowing by an individual authority might be slowed or stopped without affecting PWLB access or terms for other LAs?

The non-discretionary nature of the PWLB is one of its greatest assets. Differential access to PWLB for the small minority of councils that have driven PWLB borrowing to its statutory limit would be a regrettable step, but it would be preferable to the imposition of blanket restrictions on local authorities' freedom of action.

The consultation does not set out how individual local authorities would be subject to restrictions. It would be a cause for concern if restrictions were imposed on the basis of the unclear proposals for determining whether a local authority had spent on investment primarily for yield, as outlined elsewhere in the consultation. Such an approach would also likely increase the costs of administering the PWLB.

Instead, if restrictions on borrowing were imposed, then they should follow objective and predictable criteria, such as:

- Limiting access to local authorities that exceed gearing ratios of debt to assets or revenues (such ratios should be subject to consultation);

- Limits on borrowing at an individual council level based on caps that local authorities set themselves as part of the prudential borrowing regime; and

- A process for issuing public 'warnings' to local authorities are in danger of breaching any such borrowing criteria as may be imposed with a requirement to publish a plan for improvement, in line with other systems of public sector financial regulation.

References

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