PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT LOCAL LOANS (INCREASE OF LIMIT) ORDER 2019

Thursday 3 October 2019

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not later than

Monday 7 October 2019

The Committee consisted of the following Members:

Chair: JAMES GRAY

† Afolami, Bim *(Hitchin and Harpenden)* (Con)
† Day, Martyn *(Linlithgow and East Falkirk)* (SNP)
† Ford, Vicky *(Chelmsford)* (Con)
† Freer, Mike *(Lord Commissioner of Her Majesty's Treasury)*
† Glen, John *(Economic Secretary to the Treasury)*
Grogan, John *(Keighley)* (Lab)
† Heaton-Jones, Peter *(North Devon)* (Con)
Jones, Susan Elan *(Clwyd South)* (Lab)
† Maclean, Rachel *(Redditch)* (Con)
† Reynolds, Jonathan *(Stalybridge and Hyde)* (Lab/Co-op)
† Scully, Paul *(Sutton and Cheam)* (Con)
Sheerman, Mr Barry *(Huddersfield)* (Lab/Co-op)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Vara, Mr Shailesh *(North West Cambridgeshire)* (Con)
† Vickers, Martin *(Cleethorpes)* (Con)
Walker, Thelma *(Colne Valley)* (Lab)
Zeichner, Daniel *(Cambridge)* (Lab)

Yohanna Sallberg, *Committee Clerk*

† attended the Committee

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Thursday 3 October 2019

[JAMES GRAY *in the Chair*]

Draft Local Loans (Increase of Limit) Order 2019

11.30 am

The Economic Secretary to the Treasury (John Glen): I beg to move,

That the Committee has considered the draft Local Loans (Increase of Limit) Order 2019.

It is a pleasure to serve under your chairmanship, Mr Gray. Parliament is asked periodically to raise the limit on lending by the Public Works Loan Commissioners to local authorities. The draft order, which is being introduced under the Finance Act 2014, will raise the limit on the sum of loans that may be outstanding at one time from the Public Works Loan Commissioners, from £85 billion to £95 billion. The procedure is well established: it has been done approximately 20 times since the limit was established in 1968. The commissioners currently have £2.3 billion available to lend before they reach the existing lending limit of £85 billion. Demand for this lending can be volatile and is heightened in periods when the Government's cost of borrowing is low, as it is now.

The draft order will ensure that councils can continue to build and maintain infrastructure and other capital projects, such as local roads and maintained schools. It does not authorise any increase in the capital expenditure of local authorities or in the amount that they may borrow. Borrowing and investment decisions are subject to statutory guidance that applies at the level of the individual authority. Decisions about whether and how to borrow are a matter for each local authority's elected council, which is accountable to its electorate. Local authorities may borrow from any willing lender, provided that the authority's finance director is satisfied that the borrowing complies with relevant law and is affordable from the authority's revenues.

Whether local authorities meet their borrowing needs from the commissioners or from the private lending market, the effect on public spending, borrowing and debt is broadly the same. There are two advantages of the Public Works Loan Board, however: quick access to PWLB loans gives local authorities long-term certainty in their capital plans, and the interest paid on them stays in the public sector and is recycled into spending on public services.

I hope that the whole Committee will join me in thanking the Public Works Loan Commissioners for the services that they render, on an entirely voluntary basis, to the benefit of the citizens of this country, as well as the staff of the Public Works Loan Board who support their work.

11.33 am

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): It is a pleasure to see you in the Chair, Mr Gray, and, to be frank, it is a pleasure for the Minister and me to consider a statutory instrument that is not related to a no-deal Brexit. Instead, as he outlined, it relates to a fairly routine increase in the Public Works Loan Board's borrowing ceiling for local authorities.

The Opposition believe that local government is at a crisis point in the funding that it requires to meet its needs. Many authorities face pressures, particularly with respect to severely rising adult social care costs, alongside what have been the most severe cuts we have ever seen in central Government funding. That is why Labour has committed that in government we would give local government the extra funding it needs, as we outlined in our 2017 manifesto. We would initiate a long-term review of council tax and business rates to ensure that local government has the sustainable revenue it needs.

The draft order will permit higher borrowing. Investing to save is clearly a good thing for local authorities, but the Minister will be aware of concern that the shortfall in local authority budgets is being met with more borrowing by councils to invest in assets in order to provide the revenue to meet that shortfall. Has his Department conducted a proper assessment of that issue?

Research by the House of Commons Library in September 2019 on the use of commercial property investment as a source of revenue notes that

"local authorities have experienced substantial reductions in central government funding since 2010. The Institute for Fiscal Studies claimed that grants to local authorities were cut by 36% between 2009-10 and 2014-15…Revenue Support Grant (RSG) funding is projected to be cut further, from £11.5 billion in 2015-16 to £5.4 billion in 2019-20."

It also cites a report that states:

"Driven by increasing social care costs, if they remain constant, local government faces a £5.8 billion funding gap by 2020."

The research paper addressed evidence that the financial pressures on local authorities mean that they turn to different methods to seek funding to alleviate the strain, namely borrowing at a lower rate from the Public Works Loan Board and investing in higher return asset classes, particularly commercial property. Is it still Government policy that such a practice should be permitted without formal restriction? Will the Minister elaborate on whether any assessment has been conducted of what proportion of any increased funds may fuel this type of activity, given that it is not without risks and particularly given how exposed commercial property would be to a no-deal Brexit?

Local authorities can of course be creative and entrepreneurial in how they fund themselves, although in many cases they have been forced to do so through desperation because of the cuts they have faced. Any increase in the borrowing limit should not detract attention from the very real problems that local authorities face in meeting their budget constraints as a result of austerity policies. I seek the Minister's assurance on that particular point.

11.36 am

John Glen: I want to say from the outset that the draft order does not affect the amount that local authorities can spend or borrow. It simply makes money available for the Public Works Loan Commissioners to lend if local authorities wish to borrow. The service is valuable and the Government recommend that it continues to be available.

The hon. Gentleman made two substantive points and I am happy to respond to then. He made a general point about the resource needs of local authorities, and then, in an era of seeking a yield, he referred to the research paper on property and other investments. The Government are helping to support the financial sustainability of local councils. The spending round a few weeks ago in respect of the local government settlement provided the largest increase in spending power since 2010, increasing core spending power by £2.9 billion, or 4.3% in real terms. It includes an additional £1 billon of grant funding for adult and children's social care on top of maintaining £2.5 billion for existing social care grants.

As I have made clear, the SI relates to the rules of capital expenditure through the Public Works Loan Board. Borrowing can be used only for capital investment. Both I and my right hon. Friend the Chief Secretary keep the expenditure of local government under close review.

On the hon. Gentleman's assertions about where the search for yield can go, local borrowing and spending decisions are made at a local level. They are subject to the prudential code of the Chartered Institute of Public Finance and Accountancy and to statutory guidance from the Ministry of Housing, Communities and Local Government. That guidance was updated in 2018 and makes clear that local authorities that borrow more than, or in advance of, their needs solely to generate profit are not acting in accordance with the prudential framework. MHCLG is currently reviewing the impact of the revisions to the prudential framework.

When local authorities borrow, they must have regard to the prudential framework as set out by the aforementioned bodies. Borrowing and capital spending decisions are devolved to local councils, but it is expected that they should not take on disproportionate levels of financial risk, especially where it is funded by additional borrowing. PWLB finance continues to play a critical role in helping local authorities transform services and realise broader objectives, such as local growth regeneration via their capital strategies. I hope that those two clarifications meaningfully meet the concerns raised by the hon. Gentleman, and I hope the Committee has found this morning's sitting informative and will join me in supporting the draft order.

Question put and agreed to.

11.39 am

Committee rose.