PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT PUBLIC BODIES (ABOLITION OF PUBLIC WORKS LOAN COMMISSIONERS) ORDER 2019

Monday 3 February 2020

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not later than

Friday 7 February 2020

The Committee consisted of the following Members:

Chair: Mr Virendra Sharma

† Coutinho, Claire *(East Surrey)* (Con)
† Davies-Jones, Alex *(Pontypridd)* (Lab)
† Flynn, Stephen *(Aberdeen South)* (SNP)
† Glen, John *(Economic Secretary to the Treasury)*
† Grant, Peter *(Glenrothes)* (SNP)
† Jones, Mr Marcus *(Nuneaton)* (Con)
† Kearns, Alicia *(Rutland and Melton)* (Con)
Miliband, Edward *(Doncaster North)* (Lab)
† Murray, James *(Ealing North)* (Lab/Co-op)
† Penrose, John *(Weston-super-Mare)* (Con)
† Reynolds, Jonathan *(Stalybridge and Hyde)* (Lab/Co-op)
† Robinson, Mary *(Cheadle)* (Con)
† Rowley, Lee *(North East Derbyshire)* (Con)
† Sambrook, Gary *(Birmingham, Northfield)* (Con)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Sunderland, James *(Bracknell)* (Con)
† Vara, Mr Shailesh *(North West Cambridgeshire)* (Con)

Laura-Jane Tiley, *Committee Clerk*

† attended the Committee

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Monday 3 February 2020

[MR VIRENDRA SHARMA *in the Chair*]

Draft Public Bodies (Abolition of Public Works Loan Commissioners) Order 2019

6 pm

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

That the Committee has considered the draft Public Bodies (Abolition of Public Works Loan Commissioners) Order 2019.

It is a pleasure to serve under your chairmanship, Mr Sharma.

The draft order, which is being introduced under the Public Bodies Act 2011, will abolish the office of public works loan commissioners and transfer their functions, interests in land, and all other rights, liabilities and property to Her Majesty's Treasury. The role of the Public Works Loan Board as a lender to local authorities is not affected by the draft order, which will rather ensure continuity of such lending by providing ongoing improvements in efficiency and accountability.

The Committee may be aware that the PWLB was formalised in 1817 via an Act of Parliament. It has supported England, Scotland and Wales through major historical events such as the Napoleonic wars, the formation of Trafalgar Square and our recovery after the two world wars, and through construction projects relating to vital infrastructure—projects for public utility and sanitary improvements, housing development and harbour maintenance. PWLB loans have supported employment opportunities and improved quality of life for successive generations.

Today, the PWLB is a statutory body of up to 12 independent commissioners. It issues loans to local authorities and other specified bodies from the national loans fund, and operates within a policy framework set by Her Majesty's Treasury, while daily lending functions are carried out by the UK Debt Management Office. However, since the introduction of the prudential regime in 2004, which devolved borrowing decisions to local authorities, the commissioners retain a merely ceremonial role, carried out so that central Government lending complies with statute, rather than serving any practical purpose. Recruiting for the commissioner roles in that context has, inevitably, become more challenging.

If the PWLB is not quorate, it cannot lend or collect repayments. The result would be to freeze central Government lending, which would have a significant impact on local authority budgets and financing plans and jeopardise essential capital projects. Acute concerns about that will continue while PWLB governance remains outside the Treasury's jurisdiction. This draft instrument will place that vital lending function on a more secure footing, so that we continue to provide a foundation for local authorities to commit to value-for-money long-term capital investment initiatives, and so reinforce the Government's vision for levelling up.

As is usual for this type of legislation, the draft order has been put before the Secondary Legislation Scrutiny Committee, the Joint Committee on Statutory Instruments and the Treasury Committee for scrutiny. I met the Chair-elect of the Treasury Committee to inform him of this statutory instrument debate. None of the Committees requested the enhanced scrutiny procedure available under the Act.

I hope that the whole Committee will join me in thanking the public works loan commissioners—often ex-finance officers of local authorities—for the services they render, entirely voluntarily, for the benefit of the citizens of this country. I commend the instrument to the Committee.

6.3 pm

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): It is always a pleasure to see you in the Chair, Mr Sharma, and it is nice to see the Minister in his place once again.

As the Minister has outlined, the draft order will make a change to the governance arrangements of the Public Works Loan Board. Abolishing the unpaid role of commissioner will mean that the body ceases to exist. My understanding is that, as he described, in reality, the board's function is already managed by the Debt Management Office, so there should be no impact on lending policy.

A consultation on the subject was undertaken in 2015, and the issue was addressed in the Infrastructure Bill of the same year. The public consultation returned a consensus in favour of this move, without substantive objections. I am minded to say that Labour has no reason to oppose the draft order, but I will listen to the contributions from other Front Benchers before making that commitment. However, I want to ask the Minister a number of questions about Treasury policy on how the ongoing functions of the Public Works Loan Board will be exercised following the passage of this instrument.

First, the Minister may remember that in October 2019 he and I debated a statutory instrument that increased the cap on the funds that local authorities could borrow in this way. In that Committee, I raised some of the funding challenges that local authorities face as a result of their budgets having been significantly reduced in recent years; he will know that there is a widespread practice whereby borrowed funds are invested in assets that pay a higher return. According to research last year by the Library, which examined the use of commercial property investment as a source of revenue, local authorities are turning to different financial methods to seek to alleviate the strain; in effect, they are borrowing money at a low rate from the Public Works Loan Board and investing it in higher-return asset classes, such as commercial property. Following the passage of this instrument, will it still be Government policy to permit that practice without formal restriction?

Will the Minister please elaborate on whether any further assessment has been conducted of that type of activity, and on the Government's plans for regulation in this area? Surely, that practice exposes all of UK local government to a downturn in the commercial property market, for which, ultimately, the taxpayer would be on the hook.

Secondly, local authorities were shocked when the interest rate on loans from the Public Works Loan Board increased from 1.8% to 2.8% in October 2019.

I tabled a question about that in the last Parliament, but I did not receive a response—although we did have several other things to discuss at the time. Will the Minister explain the rationale for that decision, given that the overall cost of borrowing remains low? Given that the instrument relates to the oversight of lending, it is important that we have full transparency about Government policy in this area.

The Opposition are not alone in raising these concerns; the Chair of the Treasury Committee wrote to the Minister in October last year to raise similar issues—specifically the oversight of loans and the impact of the rate hike. The Minister's response insinuated that the rate hike was a deliberate effort to reduce the volume of borrowing. It seems to me that the Government are not being absolutely clear about their policy. Ultimately, of course, the only real answer is to address the underlying issue by seeking to reverse the 10 years of cuts that have affected local government. If the Minister clarified the Government's position, that would be to the satisfaction of everyone involved.

6.7 pm

Peter Grant (Glenrothes) (SNP): I am pleased to contribute to the debate. The primary legislation under which the draft order is being brought forward—the Infrastructure Act 2015—relates almost exclusively to England and Wales, but the section about the public works loan commissioners extends to the whole United Kingdom, so those of us who represent Scottish constituencies have a keen interest in it.

I have a concern almost instinctively any time I see anything being done to return influence to Ministers, because, frankly, my people do not trust this Government. I am suspicious of any central Government who want to take influence back, whether to Ministers, to civil servants or to both. I am always interested to know why that needs to be done, and what difference it will make.

Paragraph 8.3 of the explanatory memorandum refers to the "effectiveness" of the new system, stating that

"Ministers will be able more directly to influence delivery, including addressing any issues that occur, and the implementation of policies."

Can the Minister explain whose policies are being implemented? The whole point of having different councils in different areas is that different people might have different policy priorities. Is this a way for the Treasury to influence what does or does not get built to suit its priorities, rather than those of elected local governments?

That might seem fanciful, but some of us can remember the days when the UK Treasury controlled practically all borrowing by local authorities throughout the United Kingdom. I was a councillor at the time, and it was quite obvious that decisions about what councils were allowed to borrow, and what they could do with their borrowing, were not about controlling the public finances, but about imposing somebody else's agenda on councils in Scotland. At that time, the district council of which I was a member had two Conservatives among its 40 members. The regional council of which I was a member had no Conservatives; there were more Communist than Conservative councillors. Effectively, the big capital spending priorities of that council, one of the biggest in the country, were determined more by decisions taken in Whitehall about what it was allowed to borrow than by local decisions. I seek assurances from the Minister that that will not be allowed to happen. To put some meat on those assurances, perhaps he could give an example of the kind of influence over the implementation of policies that he envisages the order being used for that cannot be exercised now.

Secondly, although I accept that there is an accountability issue when the functions of a Government Department are exercised by an arm's length organisation, I am not sure that resolving the lack of accountability of the Public Works Loan Board would have been at the top of my list. Instead, we could talk about Her Majesty's Revenue and Customs or the Prison Service, certainly in England and possibly in Wales as well. It is interesting that the Government are sometimes happy to have an accountability gap between who is responsible for policy and who is responsible for operational management. Do the Government accept that, if there is a lack of accountability in relation to the Public Works Loan Board, there is also a lack of accountability in relation to the operation of HMRC? Can we expect proposals to make it more accountable?

My final concern relates again to whose priorities will be implemented. We have already seen the Government prepare to remove not only local discretion but the discretion of the national devolved Parliaments on decisions about the allocation of money from the shared prosperity fund, which replaces the European funding that has been coming into the UK for many years. At the moment, in Scotland—I understand that the situation is similar in Wales—the national devolved Parliament has a significant influence over how those funds are allocated. The only objection that I have heard from Government Members about that is that sometimes the Parliaments of Scotland and Wales have different priorities from that of the United Kingdom, but that is why we have devolved Parliaments. If we could be sure that everybody's priorities were the same, we would need only one Government; we would need only one MP, because we would not need any kind of discussion about priorities.

I look for an assurance that the measure, while seeming to be about making loans approval more efficient and accountable, is not yet another example of enabling central Government to decide, by the back door, what local authorities are allowed to do. I await an absolute assurance from the Minister; I hope he will tell me where he might imagine there would be a different decision as a result of the new set-up. I will then decide what to do. At the moment, there is a possibility that I will divide the Committee.

6.12 pm

John Glen: I am keen to respond to the points made by the hon. Members for Stalybridge and Hyde, and for Glenrothes. I stress, as I did in my opening remarks, that the order removes a purely ceremonial role. Although we are removing a function, it is one that does not exist in a meaningful sense, in terms of arbitrating on individual loan decisions.

The issue of commercial property speculation was raised. Local authority borrowing and spending decisions are made at a local level with reference to the Chartered Institute of Public Finance and Accountancy's prudential code and the Ministry of Housing, Communities and Local Government's statutory guidance. Those bodies

[John Glen]

revised the guidance in 2018, which makes it clear to local authorities that if they borrow more than or in advance of their needs solely to generate a profit, they are not acting in accordance with the prudential framework. MHCLG is reviewing the impact of the revisions to the prudential framework. When local authorities borrow, they must have regard to it to ensure that their borrowing is sensible and affordable.

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. PWLB finance continues to play a critical role in helping local authorities to transform services, but they cannot use that provision for day-to-day spending, which must be balanced off by the accounting officers each year.

The hon. Member for Stalybridge and Hyde asked about the interest rate rise before Christmas. I am sorry about the apparent lack of answer to any question he may have asked. The Government raised rates to slow borrowing, because of the statutory lending limit; they also raised that limit by £10 billion, to ensure that lending remained available. Let me stress that that is managed by the Debt Management Office; the rates are set daily against benchmark gilt prices, and should be seen against the spending round provision for local government. The forecast is for a 4.4% increase in real terms this coming year—the largest increase in spending power since 2010. I should also mention the additional grant funding available for adults and children in social care announced in the spending review.

John Penrose (Weston-super-Mare) (Con): Could I press the Minister a little more on his answer about the interest rate rise? Since there is concern in the Treasury and elsewhere in Government about borrowing to invest in commercial property, as he mentioned in his reply letter to the Chair of the Treasury Committee, and as he just laid out, is he at all concerned that raising the interest rate from 1.8% to 2.8% may have a depressing effect on local authority investment in non-commercial property—that is, in genuine capital expenditure? As he rightly laid out, the Public Works Loan Board was originally constructed to enable that investment.

John Glen: All these matters are subject to ongoing review. There is no evidence that the rate is depleting the ability of local authorities to borrow to invest in the sorts of projects that the Government, CIPFA and MHCLG would deem appropriate, but as I indicated, the subject of this SI is much narrower than that. The wider issue is a separate matter, which is always under review. I would be happy to engage with my hon. Friend on any issues that he wants to raise from his experience of his local authority.

John Penrose: Since the Minister kindly makes that offer, the Treasury has raised the interest by what must be roughly 35%, from 1.8% to 2.8%. Surely that must have an impact on the amount of borrowing that local authorities are willing to do for what are presumably much-needed capital projects. Does the Minister have any assessment of the likely impact on demand for that kind of genuinely needed loan?

John Glen: It is helpful to put this in context. The rate was a function of the prevailing gilt rates last year, and the change brought it back to the level of the previous year, so we should not see this as a great leap in interest rate that will have a major effect. It is questionable whether the advantageous window offered by the relationship to the historically very low gilt rate was creating a different sort of behaviour. Again, that is outside the scope of my comments. I am happy to look at these matters, which are under ongoing review.

Let me turn to the hon. Member for Glenrothes's remarks. He expressed general concern about any Government Minister taking control of anything, because he has no confidence in the Government. This is not a matter of Government Ministers overruling local authorities; the change is a reform of governance, with no practical effect on local authorities. It is based on the prudential code; decisions on borrowing and spending are devolved, and that continues. The Government consulted on this in 2017, and found widespread support for it. I am told that when the commissioners have met annually to sign off the annual report, they have said that they were keen for this SI to pass. The SI is quite complicated because it makes many references to primary legislation, and was delayed because of the events of recent years.

Peter Grant: I am interested to hear the Minister say that there is no practical effect on local authorities. The Government's explanatory memorandum claims that the process will become more effective for local authorities. Is that not a practical effect? Does the Minister intend to reply to my question about whose policies will be implemented more effectively?

John Glen: The process is more effective in so far as the ceremonial role, which did not meaningfully alter any decisions on the ground, is transferred to the Treasury. There, we can ensure that we have a quorate body meeting to oversee the borrowing, but it will not make any different arbitration decisions, because the existing group of commissioners do not make those decisions. I am sorry that there has been a misunderstanding, but the order is not a power grab by the Treasury.

Transferring the powers of the public works loans commissioners to the Treasury will place that crucial function on a secure platform, enabling the continuity of lending for essential local capital projects. Those investments are often fundamental to quality of life and economic development, and by passing the SI, we will enhance the robustness and resilience of the lending facility, thereby supporting local authorities in such endeavours. I hope that the Committee has found the sitting informative and will join me in supporting the Order.

Question put.

The Committee divided: Ayes 10, Noes 2.

Division No. 1]

AYES

Coutinho, Claire	Robinson, Mary
Glen, John	Rowley, Lee
Jones, Mr Marcus	Sambrook, Gary
Kearns, Alicia	Sunderland, James
Penrose, John	Vara, Mr Shailesh

NOES

Flynn, Stephen | Grant, Peter

Question accordingly agreed to.

Resolved,

That the Committee has considered the draft Public Bodies (Abolition of Public Works Loan Commissioners) Order 2019.

6.23 pm

Committee rose.