**Creating a bond**

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**The financing of local infrastructure investments is a very important question for every country because a well-developed local infrastructure provides the possibilities for growth. In the UK local authorities are responsible for over 50% of all public investments and yet, unlike many other countries, there is no municipal funding body.**

In many countries all over the world local government funding agencies are functioning as vehicles for local authorities to reach the financial markets and to achieve a diversified bond issuance.

In the Scandinavian countries, the Netherlands, New Zealand, Japan, USA and Canada these agencies exist and are successfully taking care of the borrowing needs of local authorities. Later this year, in October, an agency owned by French local authorities will be formally created. I am proud to be involved in this project.

The AAA rated Scandinavian and Dutch agencies borrowing needs for 2013, according to public sources, are likely to be the equivalent of between £95bn and £100bn. This will be raised through bond issues that will be bought by a variety of investors, including British investors like pension funds.

This means that British capital is used to finance local infrastructure in foreign countries, while Britain lacks the kind of vehicle to attract this money to its own local infrastructure. It represents a significant and largely avoidable leakage of funds to the UK economy.

But can local authorities bear this responsibility? Wouldn’t they turn to excessive borrowing if they had their own agency?

The answer is no. The existing prudential code already requires councils to take a long-term view of affordability of spending plans, and this agency would build on those strengths by its strict appraisal of loan applications - not least because the agency is directly reliant on the creditworthiness of its members. Without a good credit rating and a strong reputation among investors an agency will not work. An agency owned and backed by a considerable number of creditworthy local authorities is destined to reach the best possible rating.

An agency creates substantial peer pressure. The Scandinavian experience is that

this incentive based approach has proven to be much more effective than top down government supervision. It creates a situation where non-members can see that members are getting a regular access to more cost-efficient borrowing and hence the non-members strive to improve their financial situation so that they can be members.

What is needed to create a British municipal bond agency? Firstly you need people with entrepreneurial skills. It is essential that the local authorities are well represented in the project and that the interests of local authorities are accommodated. In this stage of the project there is less need for representatives from the banking and investor communities because we already know that agency bonds are in great demand.

The best way of gaining the trust of local authorities is to be clear about the agency’s core values:

* + Equality; all local authorities should be treated equally. All exceptions, such as different margins, should be logical and fair.
	+ Transparency; the agency should be as open as possible with information to the local authorities about the its activities.
	+ Involvement; local authorities should be made to feel that this is their project, for which every local authority has a responsibility.

It is also important to build a lean organisation, with a strong set of governance rules.

It is of course also essential that the central government provide the best possible conditions for the agency to function in a desired way, for the best of the country.

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