GATESHEAD COUNCIL'S LOBO LOANS

This report has been developed by **Research for Action**, a workers' co-operative producing research to support social, economic and environmental justice. Since 2014 their members have been investigating LOBO loans.

1. Introduction

A citizen debt audit

Research for Action is conducting a citizen audit of local authority debt with the aim to improve the accountability of councils towards their residents in managing funds in the public interest. A citizen debt audit is a bottom-up process that aims to engage councillors, residents and civil society in deciding if debt is legitimate.

There is no official definition of **illegitimate debt** and it is not a legal or financial term. Instead, it encompasses more broadly debt that was not incurred in the public interest and where debt servicing and repayment is detrimental to the rights of the population. The concept of illegitimate debt also reverses the norm of placing the responsibility for contracting the debt on the borrower and makes it possible to hold lenders to account.

Why is a debt audit important now?

From 2010 to 2018, funding from central government to local authorities was cut by 49.1%, leaving many councils struggling to meet their legal obligations to deliver services to residents. In February 2018, Northamptonshire County Council declared it was effectively bankrupt, suspending all new expenditure decisions.

The overhaul in local government funding since 2010 is only the latest chapter in a trend of shrinking the role of the public sector. Austerity is more than just cuts to services. It has marked a deliberate shift in power relations where, with declining public spending, public scrutiny and democratic accountability are also eroded.

Local authorities should be guaranteed stable funding from central government to fulfil their duties towards residents. Instead, they are treated as commercial actors and are encouraged to engage in speculative activities. Through financialisation, risk is introduced into the funding of essential services. With financial loss comes service withdrawal. Debt is central to how councils are disciplined to play by the rules of financial capital and lays bare the power dynamic between the cash-strapped public sector and powerful financial institutions.

From the 1980s to 2011 local authorities borrowed extensively from private banks even if it was more expensive and risky than borrowing from central government via the **Public Works Loan Board (PWLB)**. They were provided too-good-to-be-true deals called **LOBO loans** which were designed to appear cheaper than PWLB debt to a non-expert eye. As a result, financial institutions are making huge profits from taxpayers' money - on top of the bailouts many of them received from central government after the financial crisis they caused. **Over 200 councils across the UK took out LOBO loans, totalling approximately £15bn.**

Is LOBO debt illegitimate?

Illegitimacy of debt can broadly be examined from the following perspectives:

- The **contracting** of debt - are the terms of the loans legitimate?
- The **origin** of debt - are the reasons why the debt was incurred in the first place legitimate?
- The **servicing** of debt - is the way the debt is being paid for legitimate?

Based on this framework Research for Action has exposed that LOBO debt is illegitimate for the following reasons:

1. **Illegality**. LOBO loan contracts infringe the law and contain grossly unfair clauses that create excessive risk that was undisclosed to councils.
2. **Power imbalance.** LOBO loans result from an excessive power imbalance between too-big-to-fail banks and public institutions and were used by banks to circumvent regulation on derivatives sales. Banks and brokers not only abused information asymmetries with councils, but also were involved in rigging the rates (LIBOR and ISDAfix) the loans were pegged to.
3. **Conflict of interest.** Treasury management advisors (TMAs), who are hired by councils to provide independent advice, recommended LOBO loans to councils while receiving commissions from brokers arranging the loans. Brokers in turn were being paid high fees by both the council and the banks, which is not standard brokerage industry practice.
4. **Council mismanagement.** In some councils, administrations committed actionable breaches when taking out LOBO loans. Councils are also destroying documents related to the loans or restricting access to them to councillors, journalists and residents.
5. **Use of the funds.** Councils were not obliged to specify for what purpose LOBO debt was taken on. However, there is evidence that in certain cases funds were not invested to benefit the population.
6. **Interest vs services.** Servicing LOBO debt in the context of austerity is exacerbating human rights violations for which Britain has been criticised by the United Nations.

In this briefing we will look in detail at the first four points with regards to Gateshead Council's LOBO loans. Points 5 and 6 would need a broader investigation into the financial accounts and decisions of the council.

What has been done about it?

Research for Action in collaboration with **Debt Resistance UK** has undertaken an in-depth investigation into LOBO loans and have obtained the details of most of the loans.

Based on the data, residents and councillors from across the political spectrum have been encouraged to take action on LOBO loans locally and we have provided them support to raise the issue in council meetings or to object to their councils' accounts using the **2014 Local Audit and Accountability Act**.

We have also campaigned at the national level by submitting evidence to parliamentary inquiries, lobbying MPs, coordinating open letters signed by councillors and shareholder activism at bank AGMs.

These actions generated media coverage, which prompted a **parliamentary inquiry into local authority bank loans in 2015**. Since then, central government has made no public commitment to address LOBO loans. However, following resident objections, the National Audit Office (NAO) has held ongoing private meetings with Chartered Institute of Public Finance and Accountancy (CIPFA), government departments and external auditors. As a result, councils that were at risk of bankruptcy were allowed to use a “statutory override” and not account for the true risk associated with LOBO loans in their 2017/18 financial accounts.

In 2016 Barclays removed the options from its loans, effectively transforming them into fixed rate loans. However in July 2018, 15 local authorities announced they would be taking **legal action against Barclays** on LOBO loans based on LIBOR rigging. Of these, eight filed their claim in January 2019, including the London borough of Newham, the council with the most LOBO debt in the UK.

Newham also announced in February 2019 that it would challenge **Royal Bank of Scotland** (RBS) over the loans. The claim has now been withdrawn, as Newham obtained from RBS the cancellation of its LOBO loans with a relatively low breakage fee. A breakage fee is usually applied by lender when exiting a loan as they account for the profit they were expecting to make from the interest payments.

Since 2018, RBS has been actively approaching councils, offering to either remove the option from LOBO loans or cancelling them altogether with a reduced breakage fee (you can access a database of all the RBS loans cancelled at the end of the report). A handful of other financial institutions have also cancelled their loans **(Commerzbank, KA Finanz, EuroHypo, BAE Systems, Siemens, Dresden, Hypothekenbank and Bank of Scotland)**, however many still remain on the books of our councils.

2. Gateshead's bank debt

Long term borrowing

Councils can borrow from any willing lender without having to ask for approval from central government. The amount and sources of borrowing vary for each council but overall, local government in 2018/19 held **£103bn of outstanding long term debt** in the form of:

- loans from central government via the Public Works Loan Board (75%)
- loans from private banks (18%)
- loans from other sources (7%)

Gateshead Council's total l**ong-term borrowing in 2018/19** was **£676.8m** of which **£616.5m (91%) is owed to the Public Works Loan Board (PWLB)** and **£48m (7%) to private banks**.

Local government debt is highly prized by private investors because councils theoretically cannot go bankrupt: should a council get into trouble, central government could intervene as lender of last resort.

Councils spend a significant amount of their income on interest payments – sometimes as much as 70% of what they receive in council tax income. Interest payments are ring-fenced in councils' budgets, as the failure to service debts would lead to hefty penalties and the imposition of government administrators. This forces councils to prioritise paying their creditors above everything else. Cuts to funding from central government create a vicious circle where councils are pushed to borrow more: increase in debt means higher annual interest payments and less income available for those services that are already struggling.

As indicated in the council's financial accounts, **in 2018/19 Gateshead Council spent £44.4m** on interest payments of which **£4.2m was on LOBO loans and bank debt**. To put this into perspective, **Gateshead Council's income from council tax in the same year was £88.9m**. In other words, **total interest payments in 2018/19** on debt owed to banks and to central government via the PWLB **were equivalent to 50% of council tax income.**

LOBO loans

Since the 1980s, bank debt of local authorities has been mainly in the form of LOBO loans.

LOBO stands for Lender Option Borrower Option and is typically a very long term loan (40-70 years). The initial interest rate of a LOBO loan is usually lower than the corresponding PWLB rate and often includes an introductory teaser rate.

At pre-agreed call dates, such as every six months or five years, the bank (the lender) has the option to increase the rate. The council (the borrower) then has the option to either accept the new rate or repay the loan in full. If the bank does not use its option, the council can only exit the loan by paying an exorbitant breakage fee which is at complete discretion of the bank.

Until November 2018, Gateshead Council's LOBO debt amounted to £120m and was in the form of 12 loans taken out between 2006 and 2010. In the appendix is a spreadsheet with details of each loan. All data has been obtained via Freedom of Information requests and is publicly available on WhatDoTheyKnow website.

The loans were taken out from three different banks:

- **£36m from Dexia** between 2006 and 2008
- **£12m from Barclays** in 2007
- **£72m from Royal Bank of Scotland** (RBS) between 2009 and 2010

Gateshead Council's LOBO loans were all **vanilla loans** (the most simple form of LOBO loan), except for one loan from RBS which was a **stepped vanilla loan**. This means it started with an initial teaser rate before stepping up to the agreed interest rate. **Interest rates of the loans were between 3.60% and 4.52%.** In case of the RBS stepped vanilla loan the teaser rate corresponded to the 3 month LIBOR rate.

Since the loans were taken out:

- **In January 2014 Barclays removed the options** from its LOBO loan, effectively transforming it into a fixed rate loan. This has removed the option risk, however the loan remains expensive for the council resulting in a fair value of **168%** of the principal of the loan.
- **In November 2018 RBS allowed the council to exit its LOBO loans**. The council paid the loans back by taking out new PWLB debt at 2.65%. Gateshead Council paid RBS a total of £15.6 million breakage fees on the RBS loans of £72 million, corresponding to 22% of the original principal. Compared to other councils, this was a relatively good deal (see link to database on RBS loans at the end of this report). In detail, Gateshead council substituted £72 million of highly risky loans with rates between 3.66% and 4.30%, with £50 million of standard loans with similar terms at 2.65% from the PWLB, providing an estimated saving of £23 million over the terms of the loans and significantly reducing risk in its debt portfolio.

Now Gateshead Council is left with £36m in LOBO loans owed to Dexia with interest rates between 3.60% and 4.15% and £12m at 4.52% owed to Barclays in the form of a LOBO loan with the option removed.

Currently only interest is being paid on the loans, while the principal will be paid back at the term of the loans. The loans have very long **terms ranging from 60 to 70 years**. **The largest sum, £30m will have to be paid back to Dexia in 2078, while £6m is due to Dexia in 2067 and £12m to Barclays in 2067.**

A lose-lose bet with the banks

LOBO loans are such bad deals for councils that they were described by the treasury management advisor Arlingclose in the 2015 parliamentary inquiry as a lose-lose bet for councils:

> "Heads the lender wins and tails the borrower loses. Only if the coin lands on its edge every time, and rates remain broadly flat for decades, does the local authority win."

As explained by CIPFA in a 2015 Treasury and Capital Management Panel Bulletin:

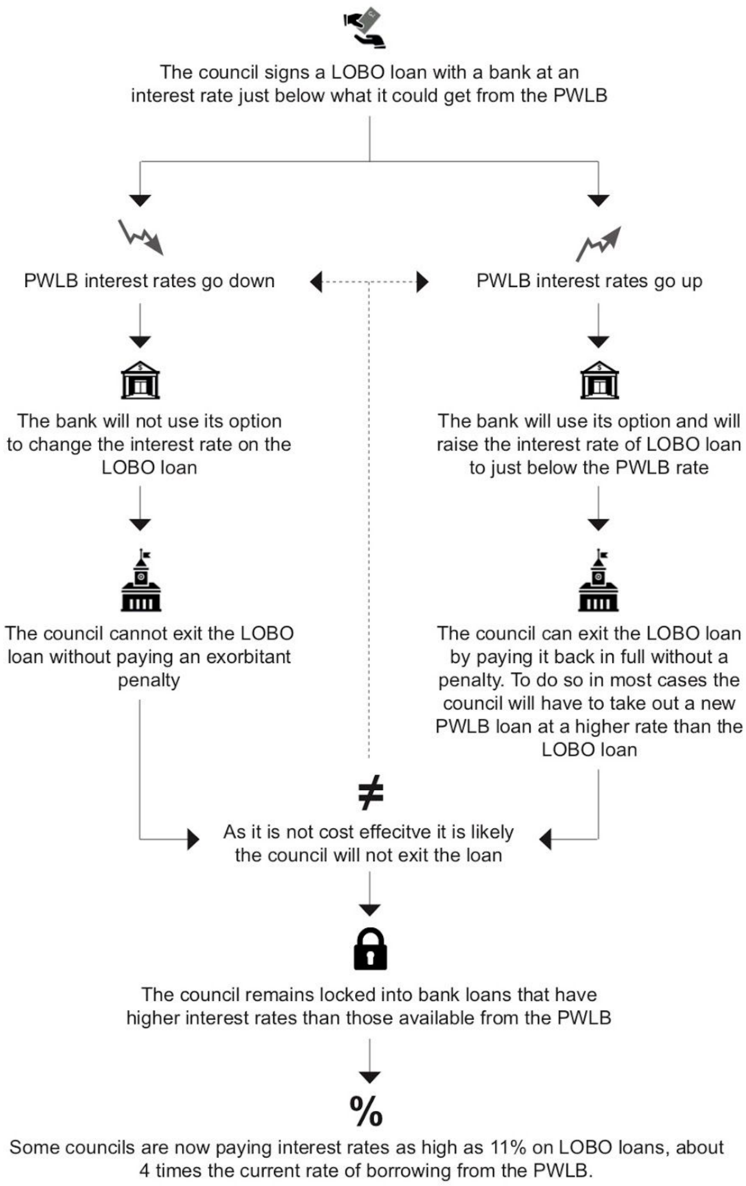
> "As the option to change the rate rests with the lender, it may be assumed that the offered rate will always be higher than the headline rate. It is also likely that a new rate will be offered in an environment of higher interest rates.
>
> LOBO loans may therefore look attractive to local authorities because the value of the options they have given can result in an interest rate which is (initially) below PWLB. However, the price for this is the risk that the lender's option will be called at some future date. A LOBO is likely to be called when it advantages the lender and disadvantages the borrower."

This is how a LOBO loan works in detail:

- If PWLB and market interest rates go up, the bank is likely to use its option. The council will in most cases have to borrow new funds if it wants to pay back the LOBO loan. To make the deal cost-effective, this new loan must have an interest rate lower than the one offered by the bank. So to keep the council trapped in the LOBO loan, the bank will offer a new interest rate just below the rate at which the council could borrow from the PWLB or the market.

- If PWLB and market interest rates go down, the bank will keep the LOBO loan rate as it is. In other words, it will not exert its option and the council will be paying a higher interest rate than that available at the time. This is the scenario in which councils find themselves today with some councils locked into 11% interest rates, about four times the current rate of borrowing from the PWLB.

If a local authority does decide to exit a LOBO loan without waiting for the bank to exercise its option, it will be charged a breakage fee which will be based on the gain the bank expects to make from the loan. The fair value of a loan gives an indication of what the fee would be at a given moment in time based on market rates, but effectively the final cost remains completely at the discretion of the bank. In the current situation where PWLB interest rates are low, exit costs for LOBO loans are very high.



The total fair value of Gateshead Council's £48m LOBO debt in March 2019 was £75.7m, **157% of the total principal of the original loans**. **This includes a £12m Barclays LOBO loan which alone has a fair value of £20.1m (168% of the principal)** - suggesting that Gateshead Council did not gain much from the removal of the options.

In the case of PWLB debt, the fair value is based on a specific and transparent formula provided by central government. **For Gateshead Council's £616.5m PLWB debt, the overall exit cost would be £782.4m, 127% of the total principal.** The fact that the ratio for LOBO debt is significantly higher than for PWLB debt is an indication of how bad these deals are.

LOBO loans contain embedded derivatives

Gateshead Council's LOBO loans could be illegal as they contain embedded derivatives in the form of options. As explained by CIPFA in their 2015 bulletin:

> "A LOBO loan can be analysed in terms of its financial components, as follows:
> 1. a loan at a floating rate which reflects the lender's cost of capital, the credit risk of the borrower, and the lender's profit margin
> 2. an interest rate swap converting the variable rate into a fixed rate
> 3. a series of options, one for each option date; these are known as Bermudan swaptions."

Councils were prohibited from taking out derivative contracts following the 1989 Hammersmith and Fulham vs Hazell case. The High Court then ruled that councils entering into swaps and derivatives contracts was 'ultra-vires' and outside the councils' legal powers, as it was not the council's role to be speculating upon interest rates. We believe the same principle should apply to LOBO loans and they should therefore be deemed unlawful.

CIPFA also states that the more frequent the option, the more risk is associated to the LOBO loan. **One of Gateshead Council's LOBO loans (£10m Dexia loan) has call dates every 12 months posing significant risk.** The council will have to account for the risk of the option being called in their accounts and hold aside enough reserves for paying back the loan, should the bank increase the interest rate.

3. Who is responsible?

The role of the council

LOBO loans can be challenged on the basis that they are unlawful. This is defined in the 2014 Local Audit and Accountability Act as something the council:

- spent or received without powers to do so
- took from or added to the wrong fund or account
- spent on something that they had the power to spend on, but the decision to spend the money was wholly unreasonable or irrational – as in, no reasonable person would have made the decision.

LOBO loans could be considered unlawful, since no-one would rationally decide to enter loans that are so expensive and risky while having the option of borrowing more cheaply and at a lower risk from the PWLB. The choice to enter the loans could have been based on incorrect or inadequate benchmarking of LOBO loans with respect to PWLB loans and/or lack of expertise and appropriate tools by the council to fully understand their terms.

When investigating a council, one should ask for proof that appropriate benchmarking was undertaken to make sure that LOBO loans were cheaper then PWLB debt at the time. A simple comparison between interest rates of LOBO loans and PWLB loans is not sufficient, as CIPFA states in its 2015 bulletin:

> “When evaluating a LOBO borrowing opportunity, Councils should compare the rate offered on the LOBO with both swap and PWLB rates. While a LOBO’s contractual maturity may be, for example, 50 years, comparing the headline rate to that available through 50-year PWLB is overly simplistic.”

Furthermore, most of Gateshead Council’s LOBO loans have longer terms than what was available from the PWLB at the time, which was 30 years until 2005 and 50 years thereafter. Therefore a direct comparison with equivalent loans was impossible.

In some cases, council officers should be held to account for the decision to enter LOBO loans. However, due to lax accounting standards, only recently councils have been obliged to account for the risk associated with derivatives in their financial accounts. The true cost of LOBO loans remained hidden off balance sheet for many years. As a result, many officers and councillors were unaware of their impact on their council’s finances.

New international accounting standards (IFRS9) were introduced in April 2018, making the cost and risk of derivative products in council accounts more transparent. However, these have also forced councils to suddenly ring-fence funds to address the derivative risk, introducing extra pressure on already precarious council budgets. For this reason, central government had to introduce a “statutory override” that allowed councils to ignore the new standard for the worst type of LOBO loans for up to five years.

LOBO loans are extremely complex products so it is reasonable to believe that council officers were not equipped to understand the products they were being offered. As stated by Abhishek Sachdev states in his oral evidence to the 2015 parliamentary inquiry:

> "I would categorically say that I do not believe you would be able to find a finance officer or a treasury officer in a council who would be able to accurately assess the relative risks and rewards of one of these LOBO products.
>
> I would even have to say that it does not matter if you are a qualified accountant or a chartered accountant at all. We deal with some very large corporates and even FTSE 250 businesses' treasurers would not be able to analyse this on their own. They would literally need a specialist hedging advisor or for the bank to explain things in a very transparent manner to them."

Rob Carver, a former Barclays trader who was at the bank when the loans were being sold added:

> "Also, the nature of the risk itself means it is the kind of risk that makes traders and hedge fund managers, as I also used to be in the past, wake up at night screaming. It is just horrible stuff. I do not think anyone who fully understood it would do it. [...] I would not do these deals if you put a gun to my head."

The role of the banks

Banks on the other hand have sophisticated software to predict how much they will earn from a loan. Due to the way banks account for loan and derivative sales, on the day a deal is signed, they book upfront the profits they expect to make over the lifetime of a loan. It has been estimated that on £15bn of LOBO loans sold to councils banks have already booked an upfront profit of £1.5bn. The banks' exorbitant profits show just how bad the deals are for councils.

Banks went even further in abusing their power. Most LOBO loans and their breakage fees are dependent on LIBOR and/or ISDAfix. These are benchmark rates that impact loans and derivatives sold across the world. It has been proven that both LIBOR and ISDAfix were deliberately manipulated by banks and brokers. Major banks who were providing LOBO loans, like Barclays and RBS, were involved in the scandals as well as the brokerage firm ICAP.

In early 2019, eight councils filed a legal challenge against Barclays in relation to LIBOR and the case is still ongoing. Unfortunately due to statutory limitation, the window for other councils to join the claim has closed.

The role of the brokers

When councils take out a loan they do not always deal directly with the banks. Often they rely on brokers, who charge substantial fees to obtain and structure the deals. Councils would pay a broker a fee corresponding to a percentage of the loan, typically 0.24%. Given the magnitude of the loans, these were very large sums. In the case of Gateshead Council **the brokers involved were Prebon Marshall Yamane (UK) Ltd for all loans, except for one Dexia loan which was brokered via Tradition. Prebon Marshall Yamane (UK) Ltd, also known as Tullet Prebon, received a total of £212,000 in fees for the loans, while Tradition received £10,000.**

At the same time, the brokers received undisclosed payments from the banks as they competed for deals. Commissions were exceptionally large since the brokers provided banks with such high margins on LOBO loans. Insiders have said it was unusual at the time that brokers should receive such high commissions from both sides of the deal.

The role of the Treasury Management Advisors

Due to the increasing complexity of local government finance, councils rely on external advisors to make decisions on borrowing and investment. Companies providing this service to councils are called treasury management advisors (TMAs). When LOBO loans were being sold, the main TMAs in the market were Butlers, Sector Treasury Services (STS), Capita Asset Services, Sterling Consultancy Services (SCS) and Arlingclose. SCS was acquired in 2012 by Arlingclose, while the three other companies are now operating under the name of LINK Asset Services.

TMA firms are generally contracted for several years and are paid an annual retainer fee for their advice. They are contractually obliged to provide independent advice in the sole best interests of their council clients. However, the independence of TMA firms has been brought into question on more than one occasion. For example, when Icelandic banks collapsed in 2008 and millions were lost by councils who had invested in them, the conflicted relationship between TMAs and interdealer brokers was at the centre of the story.

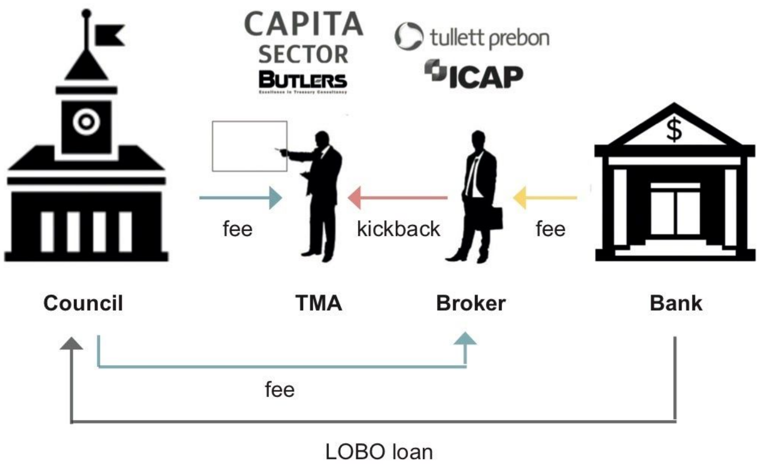
TMA advice was also highly conflicted in the case of LOBO loans. **In the case of Gateshead Council, the TMA advising the council at the time LOBO loans were taken out was Sector Treasury Services ltd (STS), a subsidiary of Capita.** At the same time STS was receiving commissions from brokers when the loans were arranged via them. Until May 2015, this was clearly stated on the website of Capita, of which STS was then a subsidiary:

> "We also receive referral commissions from Tullet Prebon, Siemens and ICAP, when Lender Option Borrower Option (LOBOs) transactions are arranged by them."

In the case of the broker Prebon Marshall Yamane/Tullet Prebon, the evidence of the conflict of interest is also contained in the 2011 Competition Commission on the merger between Butlers and STS which states:

> "A share of the brokerage fees earned by the money broker Tullet Prebon, paid to STS if an STS client elects to transact through Tullet Prebon in relation to the arrangement of LOBO loans."

All scenarios call into question the independence of advice upon which councils relied. Given the high profits being made by brokers and advisors when councils borrowed from banks, it is hard to believe that LOBO loans were recommended with the interests of taxpayers in mind and should be considered unlawful on this basis.



A failing oversight regime

The citizen debt audit has exposed the widespread failings of the local government accountability and scrutiny system. Responsibility of scrutiny is spread over various bodies, none of which seems to have a clear oversight on local government finance, making local government highly prone to corruption risk and unfair dealing. LOBO loans are symptomatic of much wider issues around unaccountability, weak regulation and lack of enforcement in local government finance as a direct result of central government policy.

The 2003 Local Government Act gave local authorities powers to set their own borrowing limits and to **borrow from any willing lender** without consulting central government (as long as in GBP sterling), provided the borrowing was “socially sustainable”. However, it was not indicated how in practice individual councils should determine and measure the social sustainability of borrowing.

The Chartered Institute of Public Finance and Accountancy (CIPFA) produces a Prudential Code and a Treasury Management Code for local government. English councils are required to have regard to the codes, but are not obliged by law to follow them.

Local authorities are supposed to be accountable to central government via the **Ministry for Housing, Communities and Local Government** (MHCLG) and HM Treasury. However, the Public Accounts Committee has raised concerns on a number of occasions regarding the effectiveness of scrutiny of local government by the Ministry.

Local government finance is subject to external audit and scrutiny in Scotland by **Audit Scotland**, in Wales by the **Wales Audit Office**, and in Northern Ireland by the **Northern Ireland Audit Office**. In England the external audit process is undertaken by **private auditing companies**, mainly the big four accountancy firms (EY, KPMG, Deloitte, PwC) and a few smaller players such as BDO, Grant Thornton and Mazars. This arrangement was put in place in 2015 following the closure, under the pretext of cuts, of the Audit Commission, the central government body responsible for audit and scrutiny of councils in England. The big four accountancy firms undertake audit and consultancy work for both councils and corporations councils have contracts with. Concerns have been raised regarding the auditors’ conflicts of interest and their reluctance to flag corruption that could affect high-fee-paying clients.

Local government finance is **unregulated by the Financial Conduct Authority** (FCA). Furthermore, local authorities are considered to be “sophisticated” borrowers according to the FCA. This means that councils are expected to hold the necessary experience and knowledge to fully understand complex financial risks when borrowing and investing public funds.

4. What can be done

What has been done up to now in Gateshead?

Local citizens' action:

- In 2017 a local resident used the 2014 Local Audit and Accountability Act to submit an objection to LOBO loans. The result of the objection is still unknown.
- In 2019 another local resident raised the issue with the local MP, local councillors and council officers in departments of Corporation Finance, Information Rights, Performance and Communication. The resident also asked to inspect the financial accounts of 2018/19 in relation to the loans and was provided with copies of the original loans, but not any other documents proving the value for money of the loans.

Banks' action:

- In 2014 **Barclays** notified the council it had removed the option for its **£12 million** loan transforming it into a fixed rate loan. This has removed the option risk, however the loan remains expensive for the council resulting in a fair value of **168%** of the principal of the loan.
- In November 2018 **RBS** allowed the council to exit all its £72m LOBO loans with the bank with a breakage fee of £15.7m. The loans were repaid with PWLB debt at 2.67%. This will provide significant savings over the next 50 years that the council has estimated being around £23m.

What can the council still do?

1. Evaluate the legality of their remaining LOBO loans portfolio with the support of legal and financial experts (including the Barclays loans)
2. Demand disclosure by banks, brokers and TMAs of the flows of money that occured in the selling of LOBO loans
3. Take legal action against banks, TMAs or brokers based on the legal evaluation of their LOBO debt
4. Coordinate actions with other councils and call for support from national and regional institutions, including the Local Government Association
5. Demand action from central government on LOBO loans
6. Ask central government to disclose all information they hold on LOBO loans
7. Demand central government keep PWLB rates low so to allow greater savings when repaying LOBO debt
8. Undertake a review of the council's financial decisions and act where due process was not followed or decisions were not made in the public interest. This includes holding to account who was responsible and improving processes so that failures can be avoided in the future.
9. Make available to the public all the information they hold on LOBO loans
10. Involve the local community in an assessment of the legitimacy of the council's debt, including judging if the funds were used in the best interest of residents and if servicing the debt is socially sustainable

What can central government do?

1. Re-open the parliamentary inquiry into the legitimacy of LOBO loans and consider the additional evidence which has emerged

2. Call on the Financial Conduct Authority (FCA) and the Serious Fraud Office (SFO) to investigate the mis-selling of LOBO loans to councils, including the conflict of interest of the treasury management advisors
3. Support a coordinated legal action on LOBO loans by the councils against the banks and/or the advisors
4. Demand that all councils' external auditors who have received objections on LOBO loans publish a public interest report
5. Make available to the public all information central government and regulators, including the Competition and Markets Authority, hold on LOBO loans and TMA firms that advised councils to enter them

What can councillors do?

1. Table concerns regarding LOBO loans in committee meetings and in the full council meeting
2. Get the council to explore legal options to exit LOBO loans
3. Organise a workshop for Research for Action to go over the issue with your council leader or mayor, council officers and councillors
4. Sign and promote the open letter hosted on Research for Action's website, prompting the LGA and central government to take action on LOBO loans
5. Object to LOBO loans and ask that the auditor produce a public interest report or refer LOBO loans to the high court
6. Connect with councillors from other councils to organise coordinated actions
7. Ask your MP to take action on LOBO loans

5. Resources and references

Research for Action publications

LOBO loans: a citizen audit of local authority debt
http://loboloans.uk/Booklet

Debt and Democracy in Newham: a citizen audit of LOBO loans
https://loboloans.uk/NewhamReport

Reclaim Local Democracy: A guide on how to challenge you council's financial decisions
https://loboloans.uk/ObjectionGuide

Database of LOBO loans cancelled with RBS
http://loboloans.uk/RBSdatabase

Government and related bodies resources

Gateshead Council's Statement of Accounts 2017/18
http://bit.ly/Gateshead_2019

NAO report on the financial sustainability of local authorities 2018
https://loboloans.uk/NAOreport2018

MHCLG live tables on local government finance
https://loboloans.uk/MHCLGlivetables

2015 CLG parliamentary inquiry on local council bank loans
https://loboloans.uk/CLGinquiry

2015 CIPFA Treasury and Capital Management Panel Bulletin
https://loboloans.uk/CIPFAbulletin

PAC Financial sustainability of local authorities inquiry
https://loboloans.uk/PACinquiry

CLG Local authority investments inquiry
https://loboloans.uk/IcelandInquiry

Media coverage

How Councils Blow Your Millions: Channel 4 Dispatches - Channel 4
https://loboloans.uk/C4press

Councils sue Barclays over controversial LOBO loans - LocalGov.co.uk
https://loboloans.uk/BarclaysCourtCase-LocalGov

RBS sued by Newham council over the terms of £150m in loans - The Guardian
https://loboloans.uk/NewhamVsRBS

Seven UK councils sue Barclays over high-cost loans - The Guardian
https://loboloans.uk/7vsBarclays

East London council claims victory with deal on NatWest loans - The Guardian
https://loboloans.uk/NewhamWins

British Court Invalidates Some Financial Swaps - The New York Times
https://loboloans.uk/H&Fcase

Gateshead Council’s LOBO Loans

Int Ref #	Principal (£)	Initial Counterparty	Drawdown Date	Maturity Date	Term (yrs)	Option period (m)	Type	Date start teaser rate	Teaser Rate (%)	Date start iniatial rate	Initial rate (%)	Date first option	Has option been called	Interest paid in 2015/16	Fairvalue 2015/16	Fairvalue 2018/19 (£)	Fairvalue 2018/19 as % of Principle	Counterparty in 2018/19	TMA Name	BROKER Name	BROKER Fee	BROKER Fee as % of principle	Has the laon been refinance / restructured since 2015 ?	How was the loan refinanced	Date of restructure	Breakage cost for restructure	Breakage cost as % of Principle
1	6,000,000	Dexia	09/11/06	09/11/66	60	60	Vanilla	Not app	Not app	09/11/06	3.600	09/11/11	No	215,408.22	6,975,535	8,369,184	139	Dexia	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	6,000	0.10	No	Not app	Not app	Not app	Not app
2	12,000,000	Barclays	02/08/07	02/08/67	60	60	Vanilla	Not app	Not app	02/08/07	4.520	02/08/12	No	542,400.00	16,747,163	20,125,894	168	Barclays	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	19,000	0.16	Yes	Option removed	06/01/14	None	0
3	12,000,000	Royal Bank of Scotland	27/03/08	27/03/68	60	60	Vanilla	Not app	Not app	27/03/08	3.995	27/03/13	No	483,340.23	15,024,215	Repaid	Not app	Royal Bank of Scotland	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	29,000	0.24	No	Repaid with PWLB debt and internal funds	23/11/18	2,927,459	24
4	10,000,000	Dexia	06/05/08	06/05/78	70	60	Vanilla	Not app	Not app	06/05/08	4.150	06/05/13	No	415,000.00	13,126,228	16,013,269	160	Dexia	Sector Treasury Services Ltd	Tradition	10,000	0.10	No	Not app	Not app	Not app	Not app
5	10,000,000	Dexia	01/07/08	01/07/78	70	60	Vanilla	Not app	Not app	01/07/08	4.100	07/01/10	No	412,246.59	12,922,332	15,794,049	158	Dexia	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	18,000	0.18	No	Not app	Not app	Not app	Not app
6	10,000,000	Dexia	03/07/08	03/07/78	70	12	Vanilla	Not app	Not app	03/07/08	3.930	07/03/09	No	391,923.28	12,527,442	15,354,055	154	Dexia	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	17,000	0.17	No	Not app	Not app	Not app	Not app
7	10,000,000	Royal Bank of Scotland	15/03/10	15/03/60	51	12	Vanilla stepped	15/03/10	3 month Libor	15/03/12	4.300	15/03/15	No	430,000.02	13,125,208	Repaid	Not app	Royal Bank of Scotland	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	24,000	0.24	Yes	Repaid with PWLB debt and internal funds	23/11/18	2,972,939	30
8	10,000,000	Royal Bank of Scotland	02/06/09	02/06/59	50	36	Vanilla	Not app	Not app	02/06/09	3.820	02/06/14	No	383,046.58	11,950,272	Repaid	Not app	Royal Bank of Scotland	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	21,000	0.21	Yes	Repaid with PWLB debt and internal funds	23/11/18	1,826,979	18
9	10,000,000	Royal Bank of Scotland	01/02/10	02/02/60	50	60	Vanilla	Not app	Not app	01/02/10	4.200	01/02/15	No	418,849.33	12,855,458	Repaid	Not app	Royal Bank of Scotland	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	20,000	0.20	Yes	Repaid with PWLB debt and internal funds	23/11/18	2,742,090	27
10	10,000,000	Royal Bank of Scotland	10/04/10	12/04/60	51	60	Vanilla	Not app	Not app	10/04/10	3.890	10/04/15	No	387,934.24	12,135,110	Repaid	Not app	Royal Bank of Scotland	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	20,000	0.20	Yes	Repaid with PWLB debt and internal funds	23/11/18	2,016,282	20
11	10,000,000	Royal Bank of Scotland	14/01/10	14/01/60	51	60	Vanilla	Not app	Not app	14/01/10	3.780	14/01/15	No	378,000.00	11,853,565	Repaid	Not app	Royal Bank of Scotland	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	20,000	0.20	Yes	Repaid with PWLB debt and internal funds	23/11/18	1,755,062	18
12	10,000,000	Royal Bank of Scotland	06/05/10	06/05/60	50	60	Vanilla	Not app	Not app	06/05/10	3.660	08/05/12	No	368,005.47	11,545,936	Repaid	Not app	Royal Bank of Scotland	Sector Treasury Services Ltd	Prebon Marshall Yamane (UK) Ltd	18,000	0.18	Yes	Repaid with PWLB debt and internal funds	23/11/18	1,479,079	15
	120,000,000													4,826,153.96	150,788,464						222,000					15,719,890	

Research for ACTION

@Research_Act
http://researchforaction.uk
info@researchforaction.uk

Research for Action is a workers' co-operative that produces research to support social, economic and environmental justice issues and campaigns. Through in-depth investigations into vested interests and corporate power as well as researching alternative economic and democratic models, Research for Action produces informative, reliable and accessible material for the general public, the media, civil society and grassroots organisations to help strengthen their activities in bringing about long lasting change.

Authors

Vica Rogers	@ldvcrgrs
Fanny Malinen	@fannymalinen
Joel Benjamin	@Gian_TCatt