

# Banks rake in £1bn from loans to councils

## Call for inquiry into risky 'Lobo' contracts, which run for up to 70 years

by Jamie Doward

The chairman of an influential parliamentary committee has called for an inquiry into how Britain's councils have come to be shackled with £15bn in complex bank loans.

Some of the loans are commanding interest rates of almost 8% at a time when base rates are at a historic low.

A Channel 4 *Dispatches* programme reveals that most of the "Lender Option Borrower Option" loans – Lobos for short – were taken out between 2003 and 2011, when council officials believed interest rates would remain high. But as base rates hit rock bottom and stayed low, many local authorities were left counting the cost. Newham council in east London has taken out almost £600m in Lobo loans.

Freedom of information requests

suggest that this year alone the loans are costing councils an extra £145m more in interest payments than if they could borrow at today's low rates.

*Dispatches* estimates that a raft of banks, including Barclays Capital and RBS, made more than £1bn in upfront profits on the loans, which are tied to complex interest rate derivatives and subject to stringent contract clauses. A typical Lobo loan contract runs for between 40 and 70 years, with councils having to pay huge penalty fees if they want to move to a better deal. The banks have the option of raising the rates at regular intervals.

Labour MP Clive Betts, who chairs the communities and local government committee, wants his committee to investigate the loans – which have



**Labour MP Clive Betts is calling for an investigation into how local authorities were sold £15bn in loans.**

been made to some 200 councils across the country – and whether there were grounds to unravel them. He has called for the Financial Conduct Authority to investigate the behaviour of City firms that offer local authorities specialist financial advice.

Some consultants who gave advice to councils on their borrowing earned commission on Lobo loans taken out. "If a council appoints and pays for an independent outside adviser to come in, they expect that advice to be independent and not paid for by somebody else who is gaining a profit from these loans being set up," Betts said.

Rob Carver, a former trader with Barclays Capital and banker who dealt with the loans, told *Dispatches* he had had "deep moral qualms" about selling the loans to local authorities. "I didn't feel they understood the business that they were getting into, and I didn't think ultimately it would be a very good deal for the local taxpayers of that authority," Carver said.

*How Councils Blow Your Millions will be screened on C4 at 8pm tomorrow*