Report to:	**Lead Cabinet Member for Resources**
Date:	**24 September 2015**
By:	**Chief Operating Officer**
Title of report:	**The Local Government Association (LGA) - Municipal Bonds Agency**
Purpose of report:	**To seek formal approval for the Council to participate in, and commit funding in the Municipal Bonds Agency (the Local Capital Finance Company Ltd) as sponsored by the Local Government Association.**

RECOMMENDATIONS

The Lead Member is recommended to agree:

1. **the level of Council participation and committing funding to an investment of up to £100,000 to the Municipal Bonds Agency (the Local Capital Finance Company Ltd);**
2. **to note that the Cabinet approved participation and the amendments to the Treasury Management strategy on 29 June 2015;**
3. **to delegate authority to the Chief Finance Officer to take any action consider appropriate to give effect to or in consequence of recommendations 1 and 2 including determining the terms of and entering into any agreements considered necessary to be entered into including the Subscription Agreement.**

1. Background

1.1 The Local Government Association (LGA) has created a collective Municipal Bonds Agency (MBA) which it believes will allow councils to raise funds at significantly lower rates than those offered by the Public Works Loans Board (PWLB). The MBA is an independent company with the sole aim of reducing financing costs for councils through arranging lending at competitive interest rates. It is envisaged that the company will fund lending through any or all of the following:

- Raising money on the capital markets through issuing bonds
- Arranging lending or borrowing directly from local authorities
- Sourcing funding from other third party sources, such as banks, pension funds or insurance companies.

1.2 The County is not able to issue its own bonds due to the stringent capital markets requirements including an initial sum of £250m+ needed to get a market rate. However, the agency would be able to raise finance in bulk from the capital markets by issuing bonds and lend on to other local authorities. The current indication is that around 60 local authorities have pledged support, and taking part in the setting up of the agency does not commit the Council to borrowing but would give early access to potentially cheaper borrowing if required.

2. Supporting Information

2.1 The PWLB offers money at a rate of Treasury gilts plus an additional percentage set by the Chancellor of the Exchequer. The rate currently sits at a 1% premium to gilts, with discounts available subject to conditions. The March 2012 budget subsequently announced a reduction by 0.20% to 0.80% above gilts in PWLB loans, i.e., PWLB Certainty rate.

2.2 MBA claim that local authority financing costs could be reduced by up to a prudent 20% to 25% compared to the certainty rate provided by the PWLB, an annual saving on each £10m of borrowing of up to £25,000 each year. The latest report on the Capital Programme showed that the Council would be utilising borrowing of close to £90m over the next three years, which is being reviewed as debt coming to term may not need to be refinanced

2.3 MBA will offer competition to PWLB; as a result PWLB could react by reducing its own margins thereby making the MBA rate unattractive for local authority borrowers. Whilst it is difficult to predict the reaction to the establishment of an MBA, either way, it has the potential for local authorities to access lower borrowing rates.

2.4 The MBA is looking to raise up to £10m of equity capital in two phases. Phase 1 will be to fund the mobilisation stage for which £0.9m is required, £0.5m of which will be committed by the

LGA and £0.4m from UK local authorities with the objectives of establishing the corporate structure, hiring staff, raising the required level of capital and identifying the initial set of local authority borrowers.

2.5 Phase 2 will be to complete raising capital up to £10m from local authorities who wish to be owners and shareholders, to fund the launch phase and running costs of the Company through to the point when it will reach break-even. It is intended that the initial borrowing being available in the second half of 2015.

2.6 There are other benefits beyond price that arise from the creation of the MBA for councils to consider. They include:

- Reducing exposure to shifting government lending policies through increased competition and diversity of lending sources, relevant following the 1% hike
- The creation of a centre of expertise at the intersection between capital markets and local government finance.
- The opportunity to access European Investment Bank (EIB) funding for future Council infrastructure development. EIB rates are lower than PWLB rates, but cannot usually be accessed by local authorities, because in most cases the EIB will only lend money for specific projects worth £250 million or more (in some cases the EIB will help finance £150 million projects) for which it will provide up to half the funding.
- There is the possibility that the Council may receive dividend income in the future arising from the investment, and potential increase in the investment value.

2.7 The proposals are grounded in the prudential code and the revised business case reinforces the principle that borrowing by councils must be prudent and affordable.

2.8 It is however important that Members are aware of key issues around the investment commitment that is being given, particularly with regard to risk:

- The company has not commenced operations and is a new and unproven concept;
- It may not be possible to raise the required level of capital or further capital may be required;
- The demand for borrowing may not materialise;
- The PWLB may reduce its margins making the company an unattractive prospect;
- If the company has to be wound up, assets remaining in the company will be distributed to the value of cash investments – the value of any investment may not therefore be realised;
- In the event of any local authority becoming bankrupt, the Council's liability will be limited to the proportion of its investment.

2.9 However, we have an entry window now, which will not be open for too much longer, so we may not be able to reap the full benefits of access to EIB rates or bonds in the future and the company is much more viable than previously thought, due to the commitment of other councils

3. Investment

3.1 It is proposed that the Council invests up to £100,000, and delegate to the Chief Finance Officer authority to sign the Subscription Agreement. Whilst there are some risks associated with the investment as outlined in paragraph 2.8, there is the opportunity to make some substantial savings on borrowing costs.

4. Conclusion and reasons for recommendations

4.1 Lead Member is recommended to approve the level of Council participation in, and commit funding to an investment of up to £100,000 in the Municipal Bonds Agency (the Local Capital Finance Company Ltd) as sponsored by the Local Government Association (LGA). The proposed source of funding is to use some of the resources set aside within the Treasury Management for future borrowing opportunity.

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Background Documents

None