Municipal Bonds Agency

**Purpose**

For discussion.

**Summary**

Since the Executive approved a move to phase two of the project, a lead adviser has been engaged to undertake the revalidation/revision of the outline business case published in January 2012. Subject to a satisfactory outcome, it is anticipated that this work will enable supporting councils to commit to being founder members of the Agency. It is currently intended to make a recommendation to the Executive on continued LGA support for the project and for a move into phase three, the actual establishment of the Agency, in March 2014.

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| **Recommendation**  For the Panel to note progress with the project and to encourage both their own and associated councils to actively consider investing in the establishment of the Agency.  **Action**  Officers to be cognisant of Members’ comments. |

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**Municipal Bonds Agency**

**Background**

1. On 21 November 2013, the Executive approved a move to phase two of the project to establish a Municipal Bonds Agency. Phase two will revalidate/revise the outline business case published in January 2012. Provided this work justifies continued support for establishing the Agency, this phase will also seek financial commitment from councils that have expressed an interest in being founder members of the Agency and start the planning for establishing the Agency. This will include the development of a revised budget and outline project plan for establishing the Agency and issuing the first bond. Phase two is scheduled to complete on 20 March, when the Executive will be asked to consider a recommendation on continued LGA participation in the project and a move to phase three, the establishment of the Agency.

**Progress since November 2013**

1. **Work programme**. We have recruited an experienced lead adviser, Aidan Brady, to undertake phase two. He is a chartered accountant by profession, who has been working in financial services for over 20 years including holding senior positions in Deutsche Bank. We have also identified sources of specialist legal and financial advice, which can be called upon as the phase progresses, and two strategic advisers, Lars Anderson, the founder of the Kommuninvest Agency in Sweden and an adviser on the establishment of the recently launched French agency and Professor Francis Breedon, Professor of Economics and Finance at Queen Mary College, University of London, whose research is focused on foreign exchange and bond markets. In addition, the Royal Borough of Kensington and Chelsea has seconded an officer to the project for three days a week to provide analytical support to the Lead Adviser, support him at meetings with councils and provide general advice and background on the needs, working arrangements, process and culture of treasurers in local government.
2. The lead advisers work programme includes re-examining:
   1. The strategic rationale;
   2. Council demand;
   3. Investor community demand and likely pricing;
   4. The views of the ratings agencies and likely rating;
   5. Regulatory treatment;
   6. The Operating model; and
   7. Governance and capital structure.
3. Key deliverables will be: an evidence based review of the existing outline business case; a revised business case; and an investment case to be delivered with the support of the strategic advisers in time to inform a decision at the March Executive.
4. **Council support and commitment**. We continue to promote the Agency to member authorities and actively seek councils prepared to commit to being founder investors. We currently have 20 councils willing to be publicly associated with the establishment of the Agency and are working with further 21 authorities, which have varying levels of interest in and commitment to the project. This figure is steadily increasing and we are optimistic that enough authorities will be prepared to be founder investors should the revalidated business case continue to justify the establishment of the Agency.
5. **Governance arrangements**. While the LGA is the sole funder of the project, formal decision making resides within the LGA’s decision making framework, with interested councils remaining actively engaged in an advisory capacity mainly through the senior finance officers’ (SFO) group. Three meetings of the SFO group and one for the leaders or their representatives of interested councils have been planned for phase two. The SFO group will act as a quasi-project board, but without the decision making powers usually associated with such a body. They will be a sounding board for the Lead Advisor and feed into the final report on behalf of their authorities. Revised governance and decision making arrangements to cover the time when there is wider investment in the project will be discussed and developed within the SFO forum, based on recommendations from the lead adviser.

**Next steps**

1. Members are asked to:
   1. Comment on project progress and consider how to widen the network of committed councils.
   2. Encourage their own and neighbouring councils to commit to the establishment of the agency subject to the findings of the updated outline business case.

**Financial Implications**

1. The LGA has undertaken to fund phase two of the project from within the Finance and Policy Directorate programme budget. No decision has yet been made on further LGA financial commitment.