

**Item 3**

**Local Authority Bonds**

**Purpose of report**

For discussion and direction.

**Summary**

The Government currently provides three quarters of local authority borrowing needs through the Public Works Loans Board (PWLB). In October 2010, without advance warning, the PWLB increased its interest rate to 1% above the gilt rate.

As a result the LGA Executive commissioned officers to establish if councils could create a collective agency to raise funds direct - as several other countries successfully do.

The first stage of the business case is largely complete. A full report and business case will come to the LGA Executive in January. This reports sets out the emerging conclusions. A final report would be brought to the Executive for a "go or no-go" decision in summer 2012.

**Recommendation**

To note the work to date and the key conclusions.

To advise on the key issues which Members would wish to see addressed within the report being drafted for the January LGA Executive.

**Action**

Officers take progress in the light of the Board's discussion.

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1. The Government currently provides three quarters of local authority borrowing needs through the Public Works Loans Board (PWLB). In October 2010, without advance warning, the PWLB increased its interest rate to 1% above the gilt rate.
2. As a result the LGA Executive commissioned officers to establish if councils could create a collective agency to raise funds direct - as successfully in place in several other countries.
3. This project has been overseen by a Task and Finish Group, chaired by Cllr Edward Lord OBE JP, and comprising representatives of the four political groups and the Welsh LGA. The detailed work has been informed by technical advice from HSBC, Ernst & Young and city legal firm Clifford Chance.
4. A second technical reference group, comprising senior council finance managers and CIPFA, has reviewed progress from a professional/technical perspective.
5. The first stage of the business case is almost complete. A full report and business case will come to the LGA Executive in January. The emerging conclusions are:
  - 5.1 Local Government could establish its own collective agency using its existing powers.
  - 5.2 If sufficiently capitalised, a collective agency could achieve a AAA credit rating.
  - 5.3 After taking account of its running costs, a AAA rated agency could potentially lend funds at an interest rate of between 0.7% to 0.8% above the gilt rate.
  - 5.4 This would mean an individual authority borrowing £50m from the collective agency £50m for 20 years could save up to £3.0m over the life of the loan compared to the current PWLB rate.
  - 5.5 The agency would take around two years to establish.
  - 5.6 The implementation and running costs of a collective agency are being finalised. Running costs are likely to be in the region of between £2m to £4m a year.
  - 5.7 A LGA survey in September 2011 of 60 Finance Directors who were asked about a concept paper found a 97% "in principle" support for a collective agency.

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6. There are risks in the recommended approach, of which the key is that the Government could reduce the interest rates charged by the PWLB, making a collective agency unviable.
7. However there are also risks in not pursuing a collective approach.
  - 7.1 The sector is vulnerable to further interest rate increases from the PWLB or changes in the way it operates.
  - 7.2 More money is paid to banks in arrangement fees as councils raise funds through a series of individual bond issues.
  - 7.3 Councils seeking to raise smaller (under £150m) sums would be disadvantaged as they would not have the scale to borrow via bond issues.
8. The full set of risks, and mitigating actions are set out in the report planned for the January Executive. The first six months of 2012 would then be used to:
  - 8.1 Consult with councils and other key stakeholders to secure commitment for the arrangement and test the proposals with the financial sector.
  - 8.2 Procure the specialists who will help establish the collective agency.
9. A second and final report would be brought to the Executive for a “go or no-go” decision in summer 2012.