

Municipal Bonds Agency

Purpose

For decision and direction.

Summary

This paper recommends the Executive endorse the Leadership Board's decision to move into phase two into phase two of the LGA project to set up a collective Municipal Bond Agency.

Our objective for the first phase was to establish that there is enough demand among councils for a collective Agency to justify the expenditure involved in taking the project further. We believe that demand is now evidenced. In phase two, the Outline Business Case will be reviewed and developed, preparations made to recruit a set-up team, and firm council contributions to set-up costs requested. A further decision will be sought before moving to phase three, which is the detailed implementation phase leading to the establishment of the Agency.

Recommendation

The Executive Board is asked to endorse the decision taken by the Leadership Board to approve a move into phase two of the project to establish a Municipal Bonds Agency.

Action

Officers to be cognizant of Executive's comments in delivering phase two of the project.

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Municipal Bonds Agency

Background

1. On 12 September the LGA Executive considered the outline of a project plan to establish a Collective Municipal Bonds Agency, which will raise funds from capital markets at regular intervals and on-lend to participating authorities. This is a key strand in the ten big ideas in *Rewiring Public Services*. It also considered the work carried out during phase one of the project, which involved recruiting councils to be partners in setting the agency up.
2. This report seeks Executive's endorsement of the decision taken by the Leadership Board to approve a move into phase two of the project, which will review the Outline Business Case (OBC), focusing on the preferred option, the Risk Capital Model, and its financial foundations. Phase two will also see preparations, including seeking contributions to set-up costs from councils and the LGA's own budget, for phase three, in which full implementation and establishment of the agency will take place.
3. The criterion for moving to phase two was that we should identify a sufficient body of council support for the project to justify the expenditure involved in further development of the business case. The meaning of "sufficient support" was not defined in September, although it should involve a range of different kinds of councils, and give a realistic prospect of being able to finance the agency's set-up costs from a mixture of contributions from councils and from the LGA's own budget.

Council support

4. We have made significant effort to attract interest from councils and build sufficient commitment to the project to justify moving to the next phase. The Chairman has personally written to and made direct contact with a number of Leaders including those of the Core Cities, and all member councils have been e-mailed with an invitation to find out more about the opportunities this project presents. Officers have been actively pursuing councils yet to make a decision and have written to Senior Finance Officers of member councils and promoted the concept through the various Treasurers Societies and LGA newsletters. We are also seeking interest from councils in Scotland via COSLA and Wales via the WLGA. Engagement and support continues to grow week by week.
5. At the date of this paper, 21 councils are actively interested in working with the LGA to further develop the Agency. A further 16 are actively considering joining them. These 37 include London Boroughs, Core Cities, County Councils, City and Borough Unitary Councils, District and Borough Councils, one Scottish Council and a Fire and Rescue Service giving a wide spread of interest across the full spectrum of council types. The number of councils interested continues to grow. An up to date list of interested councils will be presented to the Executive at its meeting.
6. In-principle discussions have been held with elected members and finance directors from interested councils about the likely financial contribution that would be required from them towards the Agency's set-up costs.

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7. We have established a finance directors' group to which councils that have expressed a commitment to the project are invited. This has met three times. A group of leaders and other elected member representatives from those councils has also met once. A very positive and open meeting has also been held involving council finance directors and representatives from HM Treasury. This implemented a commitment from the Chief Secretary and was chaired by Sir Merrick Cockell.
8. We believe we have sufficient councils actively engaged, and the prospect of further council support to make it likely that the agency's set-up costs can be funded and that there would be borrowers likely to use it. On that basis, we considered that the Leadership Board could agree to our proceeding to phase two of the project. Phase two will involve a review of the Outline Business Case (OBC), focusing on the preferred option, the Risk Capital Model, and its financial foundations.
9. Financial contributions will be formally sought during phase two and the results of that will be reported to the Executive as part of a decision about proceeding further into phase three, in which full implementation and establishment of the agency would take place.

Set-up costs

10. Councils asked for some assurance of the assumptions about the overall cost estimate for delivering the project set out in the Outline Business Case. The LGA therefore commissioned Ernst & Young with support from Clifford Chance LLP and a short term seconded council officer to examine these issues. We also asked Lars Andersson, who spoke at the LGA conference, and who has considerable experience in this field, as the founder of the Kommuninvest agency in Sweden and an adviser on the establishment of the recently launched French agency, for feedback on the set up of the French Agency, including costs. This work allowed us to model potential contributions from councils and discuss possible ways of sharing those costs.
11. There is a feedback loop between the full review of the Outline Business Case and the size and timing of council contributions to set the agency up. It will not be possible to fix set-up cost contributions precisely until that review has taken place. The size of the LGA's contribution is yet to be decided, too. For those reasons, in a change to the previous project plan, we have therefore agreed with the finance directors group that we will not seek binding commitments to make a financial contribution until the OBC review has taken place.

Risk

12. The two principal risks to the project at present are (i) that the Outline Business Case might no longer provide an up-to-date and adequate basis for the establishment of the Agency, in particular because of further changes to Public Works Loan Board (PWLB) terms, and (ii) we might have insufficient funding to establish it. We will manage these risks through:
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 - 13.1. a thorough review of the business case;
 - 13.2. liaison with the Treasury;
 - 13.3. actively promoting the Agency to potential shareholders and borrowers among councils; and

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- 13.4. refining the cost estimates further as a side-product of the Outline Business Case review.

Next steps

14. Members are asked to:

- 14.1. Note the progress made to attract councils to support the project;
- 14.2. Note that councils will not be asked to make a binding commitment to funding the project until the latter stages of phase two, by when work to revalidate and update the OBC will have been completed;
- 14.3. Note that it will be invited to make a further gateway decision to move the project into the implementation phase, once there are sufficient council contributions formally committed, at the end of January 2014;
- 14.4. Promote the concept of the Agency to members' own and other councils with a view to expanding the pool of founding councils;
- 14.5. Endorse the Leadership Board's decision to move to the next phase of the project (phase two) on the basis of the evidence we have so far of council support and commitment to the project.

15. Officers will, in line with the project plan for Phase 2:

- 15.1. Continue to promote the project in order to further build council support;
- 15.2. Commission the revalidation of the Outline Business Case to be completed in early January 2014;
- 15.3. Agree future governance arrangements with participating councils;
- 15.4. Further refine the budget based on the revalidation of the business case;
- 15.5. Scope and plan the work required for phase three and prepare for the recruitment of a delivery team/shadow agency; and
- 15.6. Go back to the Leadership Board in January 2014 to update the Board and seek a view on continuing LGA participation in the project.

Financial Implications

16. The costs of reviewing the outline business case in Phase 2 will be borne within the existing budget of the Finance and Policy Directorate earmarked for this work.
17. As part of the January report to the Leadership Board, we will set out the proposed balance between LGA and individual council contributions to further work on the project. We expect this to involve a non-negligible allocation to a budget for the LGA's contribution to set up costs. A business case for that will be provided.