LGA Executive

17 July 2014

Municipal Bonds Agency

Purpose

For decision.

Summary

March's LGA Executive gave approval to proceed with the Bonds Agency project. It also committed the LGA to invest £400,000 in the Agency's shares, subject to that being equally matched by contributions from councils.

This paper reports that that target has been exceeded, reports on progress with the project, and seeks Members' agreement to proceed with the project and approval to commit the LGA's full investment.

Recommendations

That the Executive:

1. Agree that the Municipal Bonds Agency project should continue into full mobilisation.
2. Approve the full commitment of the LGA's intended investment; including a budgeted £100,000 of initial start-up costs, taking the LGA's total equity stake in the Agency to £500,000.

Actions

Officers under the guidance of the Project Board and as directed by the Director of the Local Capital Finance Company continue to manage the project to completion of mobilisation and the establishment of the Agency's own board of directors.

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Local Government Association

LGA Executive

17 July 2014

Municipal Bonds Agency

Background

1. At its March meeting, the Executive endorsed the revised business case for the Municipal Bonds Agency and authorised a move into the mobilisation phase of the project. It also authorised an LGA contribution of £500,000. £100,000 was to be in the form of initial start-up costs, and a further £400,000 was conditional on raising matching contributions from councils by July.

Activity since March

2. Since March, we have held informal discussions with over 90 councils to test their appetite for investing in or borrowing from the Agency. Conversations with other councils are also planned.

3. As agreed by the Executive, we have established a Project Board with representatives of the LGA and each of the five Treasurers Societies. It is chaired by the LGA's Strategic Director of Finance and Policy and also includes the project senior responsible officer and an expert in debt capital markets. It is envisaged that the board will be supplemented by another capital market/risk specialist as the project progresses. The board has assumed the responsibilities delegated to it by the Executive in March to oversee and direct the project until go live.

4. The Project Board approved the establishment of a company which can over time evolve into the Agency. The LGA is for the time being its sole shareholder. Establishing a company now has enabled us to seek equity funding from councils without incurring excessive regulatory costs. Sir Merrick Cockell sent an Information Memorandum to the Leaders of LGA member councils inviting councils to consider investing in the company on 13 June.

5. This reflects a degree of rephasing compared to the project plan set out in the March Executive paper, with company formation happening earlier than originally planned. The mobilisation phase as a whole, however, is now envisaged to run until the end of the calendar year with a compressed launch phase, allowing a first bond issue in March or April of 2015, as previously discussed by the Executive.

Subscriptions

6. The Executive set a target of raising £400,000 in council commitments to the Agency's equity by July.

7. This target has been significantly exceeded. By the end of the first week of July, 23 councils had already indicated an intention to invest a total of £3 million. An up-to-date report will be provided at the meeting. The investors include districts, unitaries and metropolitan and London boroughs, and counties.

8. The Executive may wish for a fuller picture of our current view on the project as a whole. The Project Board has discussed what criteria, over and above meeting the Executive's

target, it should use to test its confidence in achieving the full capital raise and taking the Agency into its launch phase. The four criteria, and our assessment of them, are as follows:

8.1. The project board has a reasonable level of confidence that sufficient total capital to launch and operate the Agency until break-even can be raised.

8.1.1. The outline business case recommends raising £8 million to £10 million in common equity, with the estimated net cost to break-even being £3.5 million to £4 million; the investment target therefore includes a very conservative capital buffer to cover cost overruns/timing delays. Our informal conversations with councils indicated that there is already soft commitment to contribute enough equity in total to take the Agency to break-even with a margin of error. The emerging firm commitments are demonstrating that this picture is not misleading, and also that other councils not included in our soft conversations are also subscribing. On that basis, we have a reasonable level of confidence in raising enough capital to launch the agency and take it to break-even. The project board will closely monitor future investment intentions with a view to recommending a halt to the project should it become clear that the required investment target will not after all be reached.

8.2. No unexpected and unsurmountable legal barriers have emerged.

8.2.1. We have taken continuing legal advice as we have proceeded, for example on state aid and financial regulation issues, and no barriers have emerged.

8.3. A broad range of council types drawn from across the country is involved;

8.3.1. This is the case.

8.4. **Enhanced confidence in the business case**

8.4.1. Since the Executive endorsed the revised business case in March, there has been an emerging additional role for the Agency, namely sourcing funding directly from other third parties such as banks, pension funds or insurance companies. This has enhanced overall confidence in the business case.

Next steps

9. The Executive is invited to:

9.1. note that the subscription target it set in March has been exceeded by a factor of more than seven:

9.2. approve the LGA's final contribution to the Agency's equity; and

9.3. agree that the project should continue.

Financial Implications

10. The commitment of the further £400,000 budgeted for investment in the Agency.