Municipal Bonds Agency Update

**Purpose**

For discussion and direction.

**Summary**

Following the Executive agreeing at its July meeting that the Municipal Bonds Agency project should continue into full mobilisation, the equity raised to establish the company has reached £4.5 million with 38 councils joining the LGA as initial shareholders. An interim team of five has been recruited and the development of the processes and procedures necessary to launch the first bond in the spring of next year is under way. Work is also in hand to attract second phase investors to the Agency and to identify the first borrowers.

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| **Recommendations**  That the Board:   1. notes the good progress being made; and 2. supports efforts to identify further investors in and borrowers from the Agency.   **Action**  Officers to be cognisant of Board members’ comments |
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**Municipal Bonds Agency Update**

**Background**

1. Since the last meeting of the Resources Board’s predecessor, the Municipal Bond Agency has moved decisively into its mobilisation phase. **Appendix A** to this paper sets out the background.

1. Following the Executive’s decision its July meeting that the project should continue into full mobilisation, the equity raised to establish the company has reached £4.5 million with 38 councils joining the LGA as initial shareholders. A list of shareholders is attached at **Appendix B**. £1.3 million of shareholders’ funds, including the whole of the LGA’s £500,000 contribution, has been drawn down to fund the mobilisation phase. An interim team of five, led by an interim managing director, has been recruited and the development of the processes and procedures necessary to launch the first bond in the spring of next year is now under way.
2. Work is also in hand to attract second phase investors to the Agency and to identify the councils which will be the agency’s first borrowers next spring.

**Meeting of shareholders**

1. A well-attended first meeting of investor councils at Finance Director level was held on 17 September. The group heard positive views from a number of expert external speakers, including: Lars Andersson, founder and first Chief Executive of the Swedish Agency Kommuninvest and advisor to the newly formed French Municipal Bonds Agency (Agence France Locale); a senior analyst from the Credit Agency Moody’s; and a research analyst from Deutsche Bank. Speakers also included the Head of Infrastructure and Utilities in the Lending Division of the European Investment Bank (EIB). He raised the interesting prospect of the Agency acting as an aggregator for the EIB, which would give councils access they currently do not have to cheap EIB funds for modest sized projects.
2. The next shareholders’ meeting is planned for mid-November and will include an invitation to the Leaders of shareholding councils or their representatives as well as senior finance officers.

**Establishing the company**

1. Aidan Brady has been appointed as Interim Managing Director of the company. He has been joined by four other capital markets/risk experts (one on a part time basis), two of whom also have a strong background in local government, one of them a former Section 151 officer.
2. Much of the early focus of the team has been on developing the policies and procedures needed for the company to operate as a standalone entity. Work has also begun on the design of a credit scoring process to ensure the financial standing of borrowers and on the development of options for structuring the company in the longer term.

**Governance**

1. Throughout the mobilisation phase of the project, the LGA retains 75 per cent of the voting rights and Michael Lockwood, Executive Director Finance and Policy for the LGA, is the sole Director of the Company. A project board consisting of a representative from each of the five Treasurers’ Societies, a capital markets expert and the LGA provides advice to the Director to support his decision making.
2. Subject to the successful completion of mobilisation, the LGA Executive will be invited to take the decision to move the Agency into its launch phase, at which point a Board of Directors will assume full responsibility for the governance of the company and the LGA’s role will be as a shareholder only. Following a competitive process, a search firm has been engaged to advise on the composition of the new Board and to guide the recruitment of its first members including the Chairman.

**Next steps**

1. Members are asked to:
   1. note the positive progress with setting up the Municipal Bonds Agency; and
   2. actively support and promote the concept of a sector owned Municipal Bonds Agency as a sign of the growing self-confidence of independent local government, and encourage LGA member councils to contact the LGA if they would like further information.

**Financial Implications**

1. The ongoing LGA officer support to the project between now and the end of the mobilisation phase can be accommodated within budgeted staff headcount. Funding for mobilisation and launch of the agency will come from shareholders’ funds. The LGA’s shareholding is limited to £500,000.