REPORT TO THE MEETING OF THE EXECUTIVE 4 DECEMBER 2013

PORTFOLIO: FINANCE & RESOURCES

REPORT FROM HEAD OF FINANCE

SUBJECT: MUNICIPAL BONDS AGENCY

1 DECISION BEING RECOMMENDED

1.1 To participate in a Local Government Association (LGA) project to set up a local government collective agency that would issue municipal bonds and dispense loans to councils.

1.2 That authority be delegated to the Head of Finance, in consultation with the Portfolio Holder for Finance and Resources, to agree the Council's contribution to the set up costs up to a limit of £10,000.

2 REASON/S FOR RECOMMENDATION

2.1 The only source of borrowing for small district councils is the Public Works Loan Board (PWLB). This means that we are limited to the rates that the PWLB charge.

2.2 The Council's Capital Programme is currently financed by capital receipts, a sharing agreement with Rochford Housing Association for right to buy receipts and VAT.

2.3 Capital receipts have been largely used up and, although the Council has agreed a programme of asset disposals, it is likely that in the near future the Council will need to borrow externally.

2.4 One of the ten big ideas in the LGA's Rewiring Public Services is 'Boost investment in infrastructure by recreating the thriving market in municipal bonds which England once had and most other countries still have'. Reviving council borrowing directly through the capital markets offers the prospect of cheaper borrowing and a better deal for the council tax payer. It would also free local authorities from Treasury control by ensuring there was an alternative source of funding to the PWLB, and through that route, keep PWLB rates low too. Council bonds would offer investors a direct route to invest in capital projects in a way that government bonds do not (three-quarters of the Treasury's borrowing goes to fund revenue spending). Furthermore, a revived municipal bond market would be a powerful expression of local authorities' commitment to investing in economic growth.

2.5 The LGA has prepared an Outline Business Case for the establishment of a Municipal Bond Agency. This assessed that a municipal bonds agency should, in stable bond market conditions, be able to raise funds in the bond market at around 0.5% above the long-term gilt rate and on-lend to participating authorities at an interest rate of 0.7% to 0.8% above the gilt rate.

2.6 The LGA is seeking commitment from local authorities to be involved in the setting up of a bond agency. The LGA is underwriting the initial set up costs but will require a contribution from local authorities who wish to be involved.

3 RISK IMPLICATIONS

3.1 This is a complex and demanding project, with a number of risks, key of which is a lack of local government support undermining the credibility of the project. This in turn could lead to insufficient funding. The government could also reduce the PWLB interest rates.

3.2 However, the benefits of having a Local Government Collective Agency are judged to outweigh the risks. It offers councils a potentially cheaper source of capital funding and importantly frees them from the uncertainty of unpredictable government adjustment of PWLB interest rates and the significantly higher repayment burden any increase would imply. Effort to mitigate the risks will focus on working closely with interested councils, the Government and the Treasury to give them a sound understanding of what the local authorities are trying to do.

4 RESOURCE IMPLICATIONS

4.1 There will be third party costs to establish the agency some of which will need to be spent in advance of launch and will be funded by a mix of contributions from the LGA's own budget and advance payments by councils which would be members of the agency; those advance payments will be converted after launch into subordinated debt securities of the agency. There will be a financial return for these capital subscriptions for establishment costs remunerated at commercial rates of return.

4.2 Based on current modelling with contributions based on revenue budgets, Rochford District Council's contribution would be less than £10,000. Once the Agency was established, this would be converted into subordinated debt securities and shown on the Council's balance sheet, with no impact on the General Fund. The contribution would be made over a period of time on the basis of progress in setting up the agency.

4.3 Taking part in the set up of the agency does not commit the Council to borrowing but would give early access to cheaper borrowing if required

I confirm that the above recommendation does not depart from Council policy and that appropriate consideration has been given to any budgetary and legal implications.

SMT Lead Officer Signature: ______________________________

Head of Finance

Background Papers:-

None.

For further information please contact Yvonne Woodward (Head of Finance) on:-

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