

Update on the Municipal Bonds Agency

- 33 During 2014/15, the Council invested £50,000 to become an equity shareholder in the Local Capital Finance Company, which was set up by the Local Government Association under the name of the Municipal Bonds Agency (MBA). This was a 'Policy Investment' and does not form part of the treasury management strategy. The purpose of the Agency is to facilitate borrowing by local authorities at rates that are expected to be more competitive than those of the Public Works Loan Board (PWLB).
- 34 The Agency has now converted to a PLC and is seeking a first bond issue in the autumn of 2016, although pricing and duration of the initial bond issue are unknown at present. It has been confirmed that pricing would be advantageous to the 57 shareholders, the latest of which to join are Surrey County Council and East Sussex County Council.
- 35 The MBA has stressed that success or failure will depend on local authority take up of loans. To date, eight local authorities have signed off the "framework agreement" allowing them to borrow from the MBA, but the major sticking point has been the implementation of a joint and several liability clause in the event that a borrowing local authority defaults on its loan. In these circumstances, the other borrowing authorities would be liable to make up the shortfall.
- 36 The objective of the MBA is to provide borrowing at lower rates than the PWLB Certainty Rates (i.e. gilts + 80 basis points). A credit rating has been issued by both Fitch & Moodys and the MBA is content with the outcome. No further information on this will be released ahead of the first bond issue.
- 37 It is also the intention of the MBA to develop a platform for inter-authority borrowing between councils. They are looking to provide a platform that is more controlled, more transparent and cheaper than the PWLB.
- 38 The MBA is keen for all of its shareholders to sign up to the framework agreement mentioned above. This would paint a more positive picture to those investors looking to purchase the bonds.
- 39 Although there are no immediate plans to borrow from the MBA, for the reasons given above, it is my intention to bring the draft agreement before the next meeting of this Committee for approval. It will need to be checked by our legal team, particularly the part covering joint and several liability as this has been of major concern to other authorities.