Local Government Bonds Agency Q & A

What will the Agency be?
It will be a freestanding body owned by the local government sector that will raise money efficiently on the capital markets at regular intervals to on-lend to councils.

What is the purpose of the Agency?
It will offer a viable alternative source of capital funding at a lower cost than existing sources. It will be collective in that it will balance the voices of smaller and larger authorities in the way the LGA does at present. It will allow local authorities greater control over their funding costs in the future, by being able to demonstrate the value of peer pressure and capital markets disciplines

Who would own it?
It will be owned, initially, by local authorities or other public bodies that invest in its establishment. Those authorities will become shareholders in the Agency and therefore have a say in the way it is run. In due course, we would expect to be able to accommodate all local authorities, who wish to become shareholders.

How will councils recoup their investments?
It is envisaged that once the Agency is generating sufficient profit, it will be able to start paying dividends. In addition the shares will be transferrable and therefore a council could sell its shares to other local authorities or public bodies.

Who would run it?
The Agency expects to have a wide local authority shareholder base. It will be a limited company, with its own Board of Directors comprising local authority finance experts, financial services experts from risk management and debt capital markets backgrounds and representatives elected by shareholders, all of who will go through a rigorous selection process.

Does it have Ministerial support?
The Government's view is that it is within the powers of local authorities to establish a municipal bond agency and that it is for the local authority sector to determine collectively whether such an agency could sustainably deliver value. It is fully consistent with the localism agenda for an autonomous local government sector to consider whether it is able to deliver and sustain alternative financing models.

How long will it take to establish the Agency?
It is envisaged that the Agency could be ready to issue its first bonds in 2015 to meet the normal peaks in council demand for borrowing.

Is additional legislation required to enable the Agency to be established?
No. It can be established within the current legislative framework.

What impact will this proposal have on the Government's control of overall government borrowing?
Nothing in this proposal seeks to change existing arrangements. The proposals do not facilitate additional borrowing over what is already permitted within the capital regulatory system. The existing arrangements with the Treasury retaining ultimate regulatory control are to be maintained and borrowing authorities will be required to

operate within the current prudential code. What it will do is, for any given level of borrowing, reduce the interest bill local taxpayers have to fund.

Why are you proposing a revised operating model for the Agency?
We carried out a rigorous process, which included discussions with a number of leading banks, lawyers and other relevant experts. The outcome was a clear view that there are significant pricing and administrative advantages from issuing bonds supported by a joint and several guarantee. This approach will help the Agency target a Sovereign like credit rating. The joint and several guarantee will also make it much easier to get a UK listing, with the bonds traded on the London Stock Exchange. Overall, with the revised structure, the Agency could expect to reduce a council's borrowing costs by 0.2 per cent to 0.25 per cent, saving £6.0 million to £7.5 million over the life of a 30 year £100million loan.

Is it legal for councils to guarantee each other's debts?
The very clear legal advice is that the General Power of Competence (GPC) introduced in the Localism Act 2011 gives English councils the power to do this. Because the GPC does not cover Scottish or Welsh councils or other public bodies such as Police, Fire and National Park Authorities, it is less clear whether they could do the same without a change in the legislation, which applies to them.

Will all councils be eligible to borrow from the Agency?
In theory yes, though in practice councils will need to be able to demonstrate to the Agency sound credit worthiness. Because of the joint and several guarantee model now being proposed, it is likely that only English councils would initially be able to borrow.

What is the reaction of local authorities to the establishment of an agency?
A number of local authorities have been very supportive of the initiative to date, devoting time and resources to help ensure that the business case is fully robust. As part of the business case review, we carried out a survey of English councils and, in addition, presented at a number of local authority conferences. Both the survey, and conference feedback, have confirmed to us that there is a significant pent up demand for an alternative, local authority controlled, source of funding

How much will it cost?
We are looking to raise at least £8 million for the initial capital, which includes a significant buffer to ensure that the agency is well capitalised. Our project plans envisage that this will be used within a staged process, with a number of checkpoints overseen by a rigorous governance process

How many councils want to be investors/owners?
Around 40 councils have been engaged in the development of the Agency, 21 of which have publicly declared their interest. In addition, at a range of events across the country, as the revised business case had evolved, we have introduced to councils the investment opportunity the Agency presents and have received a positive response. Now that the business case has been finalised and we can present a firm investment proposition to councils and related bodies, such as local authority pension funds, securing investors will be a high priority.

How many councils want to be borrowers?
Around 40 councils have been engaged in the development of the Agency, 21 of which have publicly declared their interest. In addition, at a range of events across the country, as the revised business case had evolved, we have introduced to councils the beneficial borrowing opportunities the Agency offers. Out of 50 councils responding to a survey, 43 told us they had a borrowing requirement in the next three years and said that they would consider using the Agency. Once the revised business case has been published and councils can see for themselves the opportunity to reduce their borrowing costs we would expect more councils wanting to take advantage of what the Agency can offer.