

BARNSELY METROPOLITAN BOROUGH COUNCIL

This matter is not a key decision within the Council's definition and has not been included within the relevant Forward Plan

Report Ref:

Cabinet: 18 May 2016

**Report of the Director of
Finance, Assets and Information Services**

APPROVAL OF UK MUNICIPAL BONDS AGENCY'S FRAMEWORK AGREEMENT, AND JOINT AND SEVERAL GUARANTEE

1. Purpose of Report

- 1.1 The purpose of this report is to seek approval for the Council to enter into the borrowing documents prepared by the UK Municipal Bonds Agency (the 'Agency').
- 1.2 The Agency requires that local authorities borrowing from the Agency enter into its Framework Agreement. The Agreement includes an accession document confirming that the Council has the necessary approvals to sign the Agreement and a joint and several guarantee to those lending money to the Agency in respect of the borrowing of all other local authorities from the Agency. Entering into the Framework Agreement enables the Council to access funding from the Agency as and when required.

2. Recommendations

2.1 It is recommended that: -

- **Members note the background to the Municipal Bonds Agency and the key facets of the Framework Agreement;**
- **Members approve the Council's entry into the Framework Agreement and its accompanying schedules including the joint and several guarantee;**
- **Delegate authority to the Director of Finance, Assets and Information Services as Section 151 Officer and Director of Legal and Governance as Monitoring Officer to sign the documents;**
- **Grant the Section 151 Officer delegated authority to agree amendments to the Framework Agreement as appropriate.**

3. Background

- 3.1 The purpose of the Agency is to deliver cheaper capital finance to local authorities. It will do so via periodic bond issues, as an aggregator for financing from institutions such as the European Investment Bank ('EIB') and by facilitating greater inter-authority lending. The Agency is wholly owned by 56 local authorities and the Local Government Association ('LGA').
- 3.2 The Council is a shareholder in the Agency with a total investment of £10,000. The LGA and 56 local government shareholders representing 65 principal local authorities and 1 combined authority have invested over £6 million in the Agency to date.
- 3.3 The Council has limited sources of capital finance available to it and its main source is the Public Works Loans Board (PWLB). The margin charged by the PWLB was arbitrarily 'hiked' in 2010 which remains a key future risk for the Council. Therefore, the LGA explored and then, with the support of a number of local authorities, established the Agency as an alternative to the PWLB.
- 3.4 The Council has a need to borrow to fund capital expenditure and for the refinancing of maturing debt. Use of the Agency may save the Council interest costs and the Agency's business case suggests that over time savings delivered by the Agency would be 0.2 per cent.
- 3.5 The prime advantage to the Council is the prospect of lower borrowing costs and the potential to obtain types of loans that are not available from the PWLB. Cheaper capital finance could reduce pressure on the Council's finances.

4. The Framework Agreement

- 4.1 The Agency's Framework Agreement sets out the arrangements for borrowing from the Agency and incorporates a joint and several guarantee that requires all local authorities borrowing from the Agency to guarantee the money owed by the Agency to those who have lent it money to fund its loans. The Framework Agreement incorporates a mechanism to prevent a call under the guarantee by requiring borrowers to lend the Agency money to cover a default by another local authority, referred to as 'contributions'.
- 4.2 The Council has the power to enter into the Framework Agreement under Section 1 of the Localism Act 2011 – the general power of competence. Borrowing under the Framework Agreement will be under Section 1 of the Local Government Act 2003 – the power to borrow.
- 4.3 The Framework Agreement only comes into effect if the Council does decide to borrow from the Agency. If the Council does not borrow, there is no risk to the Council arising from the contribution arrangements or the joint and several guarantee. Furthermore, the Agency has stated that they will not issue a bond if it is more expensive than the equivalent rate offered by the PWLB. Therefore, the financial risk to the Council of the Agency either failing to deliver a saving or the Council not borrowing having signed the Framework Agreement is eliminated.

4.4 UK local authorities are heavily supervised and subject to tight statutory control that significantly reduces the probability that a local authority will default on its financial obligations. Furthermore, the Agency will undertake credit assessments of local authorities and limit its exposure to authorities to reduce credit risk. In the event that a local authority needs to refinance its borrowings from the Agency, the PWLB is available to all local authorities as lender of last resort provided that the borrowing from the PWLB is not unlawful. No UK local authority has ever defaulted on one of its primary debt obligations. Taken together, the risk of a default is judged to be low and thus the risk of entering into the Framework Agreement and resulting guarantee is deemed to be equally low.

5. Reduction of Crime and Disorder

5.1 None arising directly from this report.

6. Employee Implications

6.1 None arising directly from this report.

7. Financial Implications

7.1 The prime advantage to the Council of the Agency is the prospect of lower borrowing costs and the possibility to obtain types of loans that are not available from the PWLB. Cheaper capital finance could reduce pressure on the Council's finances.

8. Annexes

8.1 None

9. Background Papers

9.1 The following documents and publications were used in preparation of this report:

- UK Municipal Bonds Agency PLC Documents Package for Local Authorities dated 21st December 2015.

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