

UK Municipal Bonds Agency Framework Agreement



Title of meeting: Cabinet
City Council

Date of meeting: 14 July 2020 (Cabinet)
21 July 2020 (City Council)

Subject: UK Municipal Bonds Agency Framework Agreement

Report by: Chris Ward, Director of Finance and Resources (Section 151 Officer)

Wards affected: All

Key decision: Yes

Full Council decision: Yes

1. Purpose of report

The purpose of the report is to obtain the Council's approval to enter into a framework agreement with the UK Municipal Bonds Agency (MBA). Entering in to the framework agreement is a pre-requisite for borrowing from the UK MBA. The framework agreement includes a guarantee under which the Council would be guaranteeing the borrowing of other local authorities. The guarantee is necessary to enable the UK MBA to lend to local authorities at rates below those offered by the Public Works Loans Board (PWLB). The Council's liability under the guarantee is limited to its proportion of the UK MBA's non-defaulting loans up to a sum equal to the Council's total borrowing from the UK MBA. In addition, the UK MBA will assess the credit worthiness of each local authority at the time of accession to the framework agreement, at the time of entry into a loan, and at least annually thereafter.



2. Recommendation

- (a) That the Council enter into a framework agreement with the UK Municipal Bonds Agency;**
- (b) That the City Solicitor (Monitoring Officer) and the Director of Finance and Resources (Section 151 Officer) be given delegated authority to sign the Framework Agreement and the Certificate of Approval confirming that:**
 - (1) the Council has the power to enter into the Framework Agreement and to perform its obligations under it;**
 - (2) the Council has approved the entering into of the Framework Agreement and the proportional guarantee;**
 - (3) all the necessary authorisations have been obtained and decision making procedures followed and completed to enable the Council to enter into the Framework Agreement and the proportional guarantee.**

3. Background

Most local authority borrowing is undertaken with the Public Works Loans Board (PWLB). The PWLB accounts of 84% of the City Council's borrowing. PWLB rates are driven by gilt rates, ie. government borrowing, but include a margin. PWLB rates were raised to 1% above gilts in 2010 (from 0.2% above gilts previously), subsequently reduced to 0.8% above gilts in 2012. PWLB rates were raised again to 1.8% above gilts in October 2019, subsequently rates for Housing Revenue Account (HRA) borrowing were reduced back to 0.8% in March 2020. This is an effective increase of 1.6% for borrowing by the General Fund. The PWLB has a long history of changing the amount, and the rate at which it lends to local authorities.

The Government is currently consulting on new PWLB lending terms which could include a reduction in PWLB rates for borrowing by the General Fund, but could also exclude authorities undertaking commercial activities. The Government's definition of commercial activities is currently unclear, but the Government has indicated that it could include acquiring income generating assets, other than housing, with the intention of holding them indefinitely. This could include some of the Council's long established activities including the commercial port.



The Local Government Association (LGA) has set up a municipal bonds agency. The municipal bonds agency will sell bonds in the capital markets. These are tradable debt instruments where by pension funds, financial institutions and other lenders will lend to the municipal bonds agency. The municipal bonds agency will then lend the funds raised to local authorities. This should increase competition in the market and reduce the cost of local authority borrowing.

The Council has previously purchased £150,000 of ordinary shares in the UK MBA. The UK MBA is now close to issuing its first bonds to facilitate borrowing by groups of local authorities. In order to grow the UK MBA, and to ensure its survival, it is now necessary for local authorities to enter into the framework agreement and to borrow from the UK MBA.

4. Reasons for recommendations

The reasons for the recommendation is to reduce the Council's dependence on the PWLB and to continue to help facilitate the development of the UK MBA which would offer a number of long term benefits including:

- Cheaper access to borrowing for local authorities than that offered by the PWLB;
- Loans from the municipal bonds agency should be cheaper to reschedule (ie. redeem and replace);
- Increased opportunities for local authorities to lend to each other;
- Insulate local authorities from future policy changes by the PWLB regarding access and interest rates.

The Council has previously purchased £150,000 of ordinary shares in the UK MBA. If local authorities do not borrow from the UK MBA, this investment will be lost.

5. Integrated impact assessment

The contents of this report does not significantly impact Portsmouth's communities (other than through the finances of the City Council), or equality and diversity.

6. Legal Implications

6.1 The UK Municipal Bonds Agency (UKMBA) is a lending body owned by local authorities and the Local Government Association. Its purpose is to provide loan finance to local authorities at favourable interest rates.

6.2 The Framework Agreement is the form of overarching loan document through which the UKMBA's pooled credit arrangement operates.



- 6.3 The contributions mechanism and proportional guarantee embodied in the Framework Agreement are central elements in the credit structure which effectively provide the level of assurance to the loan finance market required to secure the favourable loan rates for local authorities.
- 6.4 The contributions mechanism and proportional guarantee do entail a degree of financial risk exposure to the Council in that they could operate to make the Council liable for the default of other Local Authorities in respect of payments under loans taken from the UKMBA.
- 6.5 There are, however, factors which help to mitigate this risk and, in particular:
- UKMBA undertakes to assess rigorously the credit status of any local authority before advancing any loan finance and to keep that assessment under regular review.
 - The Council's liability under the contributions mechanism and the proportional guarantee will be subject to a cash limit equal to the total amount borrowed by the Council from the Agency and outstanding at any given time.
 - The Council's liability under the guarantee is proportional to the Council's share of the UKMBA's loan book at the time when a demand is made under the guarantee. Other local authorities taking loan finance under the scheme will also be required to give the requisite guarantee proportional to their own outstanding borrowing from the UKMBA.
 - Significant liability for the Council under contributions mechanism and the proportional guarantee is only likely to arise in the event of multiple local authority financial failures.
- 6.6 It is noted that in addition to executing the Framework Agreement the Council will be required to provide to UKMBA a Certificate of Approval signed by the Council's Monitoring Officer and s151 Officer confirming that (1) the Council has power to enter into the Framework Agreement and to perform its obligations under it (2) the Council has approved the entering into of the Framework Agreement and the proportional guarantee and (3) all necessary authorisations have been obtained and decision making procedures followed and completed to enable the Council to enter into the Framework Agreement and the proportional guarantee.



7. Director of Finance and Resources (Section 151 Officer)'s comments

All financial considerations are contained within the body of the report and the attached appendices

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Signed by Director of Finance and Resources (Section 151 Officer)

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 UKMBA Final Framework Agreement	Financial Services