

Worcestershire County Council

Agenda Council

Thursday, 18 September 2014, 10.00 am
County Hall, Worcester

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ਪੰਜਾਬੀ। ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਮਸ਼ਹੂਰ ਸਮਝ ਨਹੀਂ ਸਕਦੇ ਅਤੇ ਕਿਸੇ ਅਜਿਹੇ ਵਿਅਕਤੀ ਤੱਕ ਪਹੁੰਚ ਨਹੀਂ ਹੈ, ਜੋ ਇਸਦਾ ਤੁਹਾਡੇ ਲਈ ਅਨੁਵਾਦ ਕਰ ਸਕੇ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਮਦਦ ਲਈ 01905 765765 'ਤੇ ਫ਼ੋਨ ਕਰੋ। (Punjabi)

Council

**Thursday, 18 September 2014, 10.00 am, County Hall,
Worcester, WR5 2NP**

Membership: Mrs P E Davey (Chairman), Mr A A J Adams, Mr R C Adams, Ms P Agar, Mr A T Amos, Mrs S Askin, Mr J Baker, Mr R W Banks, Mr M L Bayliss, Mr A N Blagg, Mrs S L Blagg, Mr C J Bloore, Mr PJ Bridle, Mr M H Broomfield, Mr J P Champion, Mr S J M Clee, Mr S C Cross, Mr P Denham, Mr N Desmond, Mrs E A Eyre, Ms L R Duffy, Mr A Fry, Mr S E Geraghty, Mr W P Gretton, Mrs J L M A Griffiths, Mr P Grove, Mr A I Hardman, Mr M J Hart, Ms P A Hill, Mrs A T Hingley, Mrs L C Hodgson, Mr C G Holt, Mr I Hopwood, Mr M E Jenkins, Ms R E Jenkins, Mr R C Lunn, Mr L C R Mallett, Mr P M McDonald, Mr A P Miller, Mrs F M Oborski, Mr J W Parish, Mr S R Peters, Dr K A Pollock, Mr D W Prodger MBE, Prof J W Raine, Ms M A Rayner, Mr A C Roberts, Mr J H Smith, Mr R J Sutton, Mr C B Taylor, Mr J W R Thomas, Mrs E B Tucker, Mr P A Tuthill, Mr R M Udall, Mr G J Vickery, Mr T A L Wells and Mr G C Yarranton

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NOTES

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Date of Issue: Tuesday, 9 September 2014

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18 September 2014

5. REPORT OF THE LEADER

(a)(ii) MATTERS WHICH REQUIRE A DECISION BY COUNCIL

Municipal Bonds Agency

Recommendation

17. **The Leader and Cabinet Member with Responsibility for Finance recommends that:**
- (a) the changes to the Treasury Management Strategy as detailed in paragraphs 34 and 35 of this report, to facilitate an investment in a wholly local government owned municipal bonds agency, be approved; and**
 - (b) the capital programme cash limits be updated to reflect the purchase of 50,000 ordinary shares in the bond agency at a cost of £50,000 and an indicative commitment to the second fund raising of £25,000.**

Introduction

18. The Local Government Association (LGA) has been developing a proposal to establish a municipal bonds agency (the Agency) which will be known as the Local Capital Finance Company Limited. The structure of the company has not yet been finalised but it is expected to be a private sector company which will be wholly owned by Local Government.

19. The purpose of the Agency would be to raise finance in bulk from the capital markets by issuing bonds and to lend it on to local authorities.

20. The LGA is requesting interested local authorities to invest as shareholders in the company in order to provide funding for the initial set up costs and then working capital for the launch phase and has previously asked interested parties to issue a letter of intent in order to gauge interest.

21. The Chief Financial Officer, in consultation with the Leader/Cabinet Member with Responsibility for Finance, considered it was in the Council's best interests to consider this investment and submitted a non-legally binding letter of intent during July 2014.

22. In order for this investment to occur, the Council's

Benefits and Risks

Treasury Management Strategy must be amended and approved by Full Council to enable the purchase of shares in the Agency.

23. Currently the Public Works Loans Board (PWLB), a part of the HM Treasury, is the source of the majority of local authority borrowing. The development of the Agency is intended to provide an alternative source of borrowing which is cheaper and possibly more flexible.

24. If successful the Agency could provide loans to local authorities at rates below the PWLB. For Worcestershire, based on the LGA savings projections and the current predicted borrowing requirement for 2014/15 to 2017/18 an annual saving of £94,000 could arise.

25. Wider advantages include a diversification of borrowing sources available to local government making them less vulnerable to HM Treasury policy changes and increased self-determination and self-regulation.

26. Any profit that is subsequently generated by the Agency will be paid to shareholders as dividends allowing the recoupment of investments.

27. Conversely, if the Agency is not successful the Council may not recover its initial investment. The success of the Agency will depend on its ability to raise operating capital, attract the right personnel and price the bonds it issues at a level attractive to potential investors. There is also the risk that if the level of borrowing from local government assumed in the business case does not materialise then the reduced borrowing rates may not be available. This reduced level of borrowing may occur if the PWLB lowers its lending rates in order to remain competitive.

28. The Agency is planning to implement a joint and several guarantee from its borrowers. This would mean that the cost of any amount in default would be borne by those borrowers. This guarantee would enable the Agency to borrow from the capital markets at a lower rate than it could otherwise.

29. Risk capital will also be required which will help mitigate the need for any default to be borne by borrowers. This will be raised by holding back a percentage of any amounts borrowed. In reality this will mean that borrowers will have to borrow more than they require in order to provide the required risk capital.

30. On balance, it is considered that the benefits of enabling a significant credible alternative to borrowing from the PWLB outweigh the risks to the loss of investment. The capital invested could be subject to loss, which in terms of risk management is offset against a potential reduction in

Investment

Amendment to the Treasury Management Statement

borrowing rates available to the Council.

31. It is proposed that the Council invests up to £75,000. This will secure an equity shareholding in the new company with the investment being made in two stages, an initial investment of £50,000 and a subsequent investment of £25,000.

32. Minor but important amendments are required to the Council's Treasury Management Strategy to permit the investment in shares in the Municipal Bonds Agency. The technical name for this type of investment is 'Non-Specified'.

33. It is important to note that the amendments will not enable the Council to make investments in shares where the sole purpose is to speculate on increasing share values.

34. It is proposed that the following sentences will be **deleted** from the Treasury Management Strategy:-

'Only investments where there is no contractual risk to the capital invested and where the rate of return justifies their use will be entered into.'

'The only category of Non-Specified Investment identified for use for the coming financial year is a routine term investment with counterparty as described above for Specified Investments, for a period of more than one year.'

35. The following sentences will be **added** to the Treasury Management Strategy:

'The Council will make an investment in the form of shares in the municipal bonds agency (Local Capital Finance Company Limited) where the primary purpose is to support the Council's priorities rather than to speculate on the capital sum invested.'

'With the exception of the municipal bonds agency investment, only investments where there is no contractual risk to the capital invested and where the rate of return justifies their use will be entered into.'

'The only categories of Non-Specified Investment identified for use for the coming financial year is a routine term investment with counterparty as described above for Specified Investments, for a period of more than one year and the purchase of shares in the municipal bonds agency (Local Capital Finance Company Limited).'

36. The above proposed amendments are to the Council's Treasury Management Strategy 2014/15 that was approved by Full Council as part of the Budget in February 2014.

37. This proposal was presented to the Resources Overview and Scrutiny Panel on 3 September 2014. The

Scrutiny Process

Panel was supportive of the initiative, and considered that the risk of failing to raise enough operating capital was minimal, given that many local authorities had already expressed an interest. The Panel considered that the proposed joint and several guarantee would help the Agency achieve an AAA rating yet the risk from the guarantee was minimal given that no local authorities had defaulted on a loan. Scrutiny Panel Members suggested consideration be given to a limit to the amount which one authority could borrow, and that the Council be well represented on the Agency Board. The Panel is due to provide feedback to the Overview and Scrutiny Performance Board (OSPB) meeting on 17 September 2014.

38. Any final comments from OSPB can inform the Council decision on 18 September 2014.

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this item:

Agenda papers for Cabinet and Council February 2014 relating to the Budget