

**Meeting of the Full Council**  
**Meeting to be held on 13 October 2016**

Report submitted by: Director of Financial Resources

**Part A**

Electoral Division affected:  
(All Divisions);

**Borrowing from the Municipal Bond Agency**  
(Appendices 'A', 'B' and 'C' refer)

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**Executive Summary**

The Municipal Bond Agency has been established to give local authorities access to borrowing at cheaper rates than those given by the Public Works Loans Board (PWLB). To have access to the borrowing facility the County Council must sign up to a framework agreement issued by the Agency. A report on the Bond Agency was submitted to the County Council on 21 July 2016 which is attached as Appendix 'A'.

County Council resolved that the *"Audit and Governance Committee be requested to examine the potential risks of the County Council entering into the Framework Agreement and the possible mitigation of those risks at its meeting on 26 September 2016 and a further report be presented to Full Council on 13 October 2016"*.

The Audit and Governance committee, on the 26 September, considered the risks and mitigations, and resolved that Full Council be recommended to agree that the County Council enters into the UK MBA framework agreement as set out in the report. The report to the Audit and Governance committee is attached as Appendix 'C'.

**Recommendation**

The Full Council is recommended to:

1. Note the risks of entry into the Framework Agreement and Guarantee and of undertaking borrowing from the UK Municipal Bond Agency;
2. Approve entry into the Framework Agreement;
3. Subject to the above, authorise the Cabinet Member with responsibility for finance to approve any specific borrowing with the terms and undertaking of

any loan being subject to the approval of the Council's S151 Officer taking into consideration the potential liability being incurred from the guarantees, relative to the other borrowing options available to the Council at the time;

4. Subject to the above, delegate authority to the Council's Section 151 Officer and Monitoring Officer to execute all the necessary contractual arrangements; and
5. Note that these officers will be required to provide the confirmation at Appendix 'B' that the Council's governance has been completed in relation to entering the Framework Agreement.

## **Background and Advice**

The Municipal Bond Agency (MBA) has been established to give local authorities access to borrowing at cheaper rates than those given by the Public Works Loan Board (PWLB). To have access to the borrowing facility the County Council must sign up to a Framework Agreement issued by MBA. A report on the MBA was submitted to the County Council on 21 July 2016 which is attached as Appendix 'A'.

County Council resolved that the *"Audit and Governance Committee be requested to examine the potential risks of the County Council entering into the Framework Agreement and the possible mitigation of those risks at its meeting on 26 September 2016 and a further report be presented to Full Council on 13 October 2016"*.

The Audit and Governance committee, on the 26 September, considered the risks and mitigations, and resolved that Full Council be recommended to agree that the County Council enters into the MBA Framework Agreement as set out in the report. The report to the Audit and Governance Committee is attached as Appendix 'C'.

Following discussions with Group Leaders it has been clarified that the joint and several guarantee that local authorities must give when borrowing money only takes effect at that stage, it does not apply simply by virtue of entering into the Framework Agreement. The risk of entering into the guarantee only therefore arises where the Council join in a bond issue.

Where a borrower defaults then the agreement with MBA means that MBA will require contributions from non-defaulting authorities proportionate to their borrowings in order to satisfy the loan. These contributions take effect as further loans made from the non-defaulting local authorities which then attract interest, the MBA being required to then pursue the defaulting authority for recovery.

However, if the joint and several guarantee is triggered, then the nature of the guarantee is such that if a borrower defaults then, whilst the agreement with the MBA is as described above, a lender may, in theory, pursue recovery directly against any of the local authority guarantors.

The risk of this latter scenario is however considered to be extremely remote, in effect the arrangement is predicated on the premise that a local authority cannot go out of business. The purpose of the guarantee is essentially to provide confidence to

lenders and also to enable the MBA to issue bonds without issuing a prospectus for each bond issue or having to undertake credit assessments of individual borrowing authorities.

A fuller explanation of the mechanism and associated risks is set out in Appendix A.

Given the specific risks and guarantees around this borrowing it is recommended that subject to the Council's approval to enter into the Framework Agreement, specific borrowing from the MBA is not undertaken without the express approval of the Council's Cabinet Member with responsibility for finance and the Council's S151 Officer taking into consideration the potential liability being incurred from the guarantees, relative to the other borrowing options available to the Council at the time.

In order to access borrowing from the MBA, local authorities will need to be able to demonstrate that those signing the guarantee and related documents have the appropriate authorisation. This protects both the MBA and other participating local authorities. To facilitate this, the MBA requires a certificate of approval (Appendix 'B') to be signed by both the S151 Officer and the Monitoring Officer, which identifies the chain of authority from the local authority to the relevant signatories and demonstrates that the local authority has appropriate approval to enter into the Framework Agreement and the relevant guarantee.

## **Consultations**

N/A

## **Implications:**

This item has the following implications, as indicated:

## **Risk management**

If the Council does not sign up to the MBA framework agreement, the opportunity to secure long term borrowing below the PWLB rate may not be available under desirable terms.

## **Financial**

As set out in the report and the background papers

## **Legal**

As set out in the report and appendices

**Local Government (Access to Information) Act 1985**  
**List of Background Papers**

Paper	Date	Contact/Tel
The County Council's Treasury Management Strategy 2016/17	26 September 2016	Khadija Saeed, Head of Corporate Finance, 01772 536195
Financing the County Council's Borrowing Requirement	15 July 2014	Mike Jensen, Chief Investment Officer 01772 538724

Reason for inclusion in Part II, if appropriate

N/A