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MUNICIPAL BONDS A STEP CLOSER TO REALITY

Councils are throwing their support behind plans to create a local government collective Municipal Bond Agency which would cut millions from the cost of borrowing to deliver new infrastructure like homes, roads and business hubs.

The cross-party executive of the Local Government Association, which represents councils in England and Wales, has voted unanimously in favour of pursuing the plan following 18 councils making formal expressions of interest in the creation of a Municipal Bonds Agency to rival those already in operation in Denmark, Sweden, Norway, the Netherlands and France.

The Government currently runs a near-monopoly on lending to councils through the Public Works Loans Board, which offers money at a rate of Treasury gilts plus an additional percentage as set by the Chancellor. The rate currently sits at a 1 per cent premium to gilts, with discounts available subject to conditions.

Modelling work done by the LGA shows that a Municipal Bonds Agency would allow councils to raise funds at a significantly lower rate than those offered by the PWLB. The model shows that a council borrowing £100 million over 20 years would stand to save as much as £4.7 million compared to a PWLB loan.

In addition to the immediate cost saving, benefits of establish a Municipal Bonds Agency are:

- sustainable lower borrowing costs, free from the risk of the Treasury changing its lending margins in the future;
- control by councils of the Agency's lending terms, including the ability to refinance debt without the PWLB's penal repayment clauses;
- council ownership of the Agency;
- diversity of funding sources, ensuring long term competitive pressure on the PWLB.

The councils which have committed to working with the LGA to develop the Agency are drawn from a range of cities, counties, districts and unitary councils both large and small, and includes:

- Birmingham City Council
- Cambridgeshire County Council
- Cheshire West and Chester Council
- City of London Corporation

- East Dunbartonshire Council
- Ipswich Borough Council
- Lancashire County Council
- London Borough of Lewisham
- London Borough of Southwark
- London Borough of Sutton
- London Borough of Richmond upon Thames
- Newcastle City Council
- Rochford District Council
- Stevenage Borough Council
- South Cambridgeshire District Council
- Warrington Borough Council
- Westminster City Council
- Royal Borough of Kensington and Chelsea

Sir Merrick Cockell, Chairman of the LGA, said:

"The local government debt market is not operating in the best interests of local taxpayers and it is clear that we need to inject some additional competition into the system. Our modelling shows that with its long-established reputation for prudential borrowing and good financial management local government can substantially reduce its current borrowing costs through the creation of a Municipal Bonds Agency."

"Our plans to develop an agency have been endorsed by every type of local authority from places right across the UK. We will now push on with our efforts to bring down the cost of borrowing so that councils can deliver even better value for local tax-payers."