Item

UK Municipal Bonds Agency Framework Agreement

To:
Councillor Mike Davey, Executive Councillor for Finance and Resources Portfolio

Strategy and Resources Scrutiny Committee 11 October 2021

Report by:
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Wards affected:
(All) Abbey, Arbury, Castle, Cherry Hinton, Coleridge, East Chesterton, King's Hedges, Market, Newnham, Petersfield, Queen Edith's, Romsey, Trumpington, West Chesterton

Key Decision

1. Executive Summary

1.1 This report seeks approval for the council to enter into legal agreements with the UK Municipal Bonds Agency (the "agency" or "UKMBA") to enable the council to borrow from the UKMBA in the future, should it wish to do so.

1.2 The agency requires that local authorities borrowing from it 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 proportional 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, providing an additional source of borrowing to enable effective and efficient treasury management

to support the overall achievement of the council's strategic objectives.

1.3 This report sets out the background to the agency (Appendix 1), key facets of the framework agreement and the advantages and disadvantages of entering into the agreement, including an assessment of the risk that the council will be called upon under the guarantee.

2. Recommendations

2.1 The Executive Councillor is recommended to:

- approve the council's entry into the UK Municipal Bonds Agency's framework agreement and its accompanying schedules including the joint and proportional guarantee;
- delegate authority to the Head of Finance as Section 151 Officer and the Head of 3C Shared Legal Practice as Monitoring Officer to sign those documents, as appropriate, on behalf of the council;
- grant the Section 151 Officer delegated authority to agree amendments to the framework agreement as appropriate.

2.2 The Executive Councillor is asked to note:

- the framework agreement and its schedules, including the joint and proportional guarantee, as set out in Appendix 2;
- consideration of the council's financial position and financial standing in section 5;
- signing the framework agreement does not make the Council subject to the joint and proportional guarantee or other provisions of the framework agreement until such time it borrows from the agency; and
- the assessment of the advantages and disadvantages of entering into the framework agreement in section 6.

3 Background

3.1 The purpose of the agency is to deliver an alternative source of capital finance for local authorities. It is designed to be cheaper than PWLB and to reduce the heavy reliance that many councils place on PWLB borrowing.

3.2 The agency has two main funding programmes

- Loans of £1 million or more that are pooled and funded through bond issues that are cross-guaranteed by all local authorities participating in the pool.
- Loans of £250 million or more to either a single, or small group of local authorities, that are outside the pool and the associated guarantee.

3.3 The council has limited sources of capital finance available to it. Like other local authorities, the council has historically borrowed from the Public Works Loan Board ("PWLB") which is now part of HM Treasury's Debt Management Office. The PWLB's terms and conditions have changed frequently, therefore It is desirable to have an alternative to the PWLB that is not subject to changes in government policy.

3.4 The agency is wholly owned by 56 local authorities and the Local Government Association ("LGA") representing 62 local authorities and the Greater Manchester Combined Authority. The Council is a shareholder in the agency with a total investment of £50,000.

3.5 The agency had a difficult gestation. Having gained widespread support for its proposed lending framework in 2014, concern grew regarding the joint and several guarantee arrangements necessary, at the time, to support the pooled bonds. In 2019, the decision was taken to outsource the agency's operations and to reform its offer to local authorities. PFM, the largest financial advisor to the public sector in the US, has taken over the day-to-day operations of the agency and the LGA has taken over the accounting and company secretariat functions.

3.6 The agency's framework agreement sets out the arrangements for borrowing from the agency. 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.

3.7 Acting on behalf of prospective borrowers, a small group of authorities previously appointed lawyers, Allen & Overy, to review and advise upon the Agency's original documentation. Allen & Overy instructed counsel to obtain senior opinion on vires and reasonableness. The advice and opinion resulted in a small number of changes to the agency's documentation.

3.8 Counsel raised three key considerations that a local authority must take into account when taking a decision to enter into the framework agreement. Despite the less onerous terms of the current documentation, the agency has suggested that it remains prudent to address these considerations:

- its specific financial position;

- whether or not the council is "reasonably financially robust" i.e. the council can meet the potential demands that the framework agreement places upon it; and

- whether it is to the authority's advantage to enter into the framework agreement taking into account the advantages and disadvantages of doing so.

3.9 Taken together, these three considerations help address a key requirement of the Wednesbury principles that the council exercises its powers in a reasonable manner.

3.10 Although the council has no immediate need to borrow or refinance, entering into the framework agreement enables the council to access funding from the agency as and when required. Access to the cheapest source of finance will reduce the costs of borrowing and thus its impact on council tax. Over time, the agency's business case suggested that the savings delivered by the agency would be 0.2 per cent.

3.11 The framework agreement includes the joint and proportional guarantee, which requires all local authorities borrowing through the agency's pooled loan programme to guarantee the bonds issued by the agency to fund the pooled loans. Under the guarantee, the council's exposure is limited to its own borrowings

and, in the event of a default, its percentage of the pool of loans made by the UKMBA not subject to a default, which is significantly less onerous than the joint and several guarantee previously required by the agency.

3.12 The framework agreement incorporates a mechanism to prevent a call under the guarantee by bondholders through its “contribution mechanism” which requires pooled borrowers to lend the agency money to cover a default by another local authority, and operates in identical fashion to the joint and proportional guarantee. Its purpose is to contain a default within the local government orbit and prevent costly litigation while a default is resolved.

3.13 No local authority has ever defaulted on a loan in the history of UK local government. This dates back to the establishment of the Corporation of London in 1067. The National Audit Office in its *Financial Sustainability of Local Authorities* report of November 2014 observed:

> *“A legal framework at the core of the local government accountability system effectively prevents local authorities becoming insolvent. Local authorities cannot borrow to finance revenue expenditure or run deficits.”*

3.14 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. In effect, a local authority cannot be made bankrupt to the detriment of creditors because parliamentary approval is required to dissolve a local authority. Furthermore, for pooled loans, the Agency will undertake credit assessments of councils and limit the proportion of the loan pool that an individual authority can borrow. 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. 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 guarantee is deemed to be low.

3.15 If a local authority does default, the agency has liquidity facilities available to it so that it can meet the interest payments due on a bond and cover a limited default on a principal repayment by a local authority; the provisions of the framework agreement will be

used only if these facilities are exhausted. The council has adequate reserves well in excess of the current target level of £7.59 million and in the unlikely event of a call for contributions under the framework agreement or payment under joint and proportional guarantee, has access to PWLB funds if required.

3.16 The risks associated with the joint and proportional guarantee are limited. Therefore, from a practical perspective, the real risk to the council is the requirement to make contributions in the event of a default by another borrower and this exposure is proportional because it is calculated by reference to the amount borrowed by the council as a proportion of all non-defaulting loans made by the agency. If the council has no borrowings via the agency, it will not be called upon under the framework agreement.

3.17 Section 13 of the Local Government Act secures all debts of a local authority on its revenues and therefore it is extremely likely that the agency will be able to recover amounts owed to it by a defaulting authority. In turn, this will enable the agency to repay sums lent to it under the framework agreement or paid out by the council under the guarantee. The most likely source of a late payment or a default is error by a local authority.

3.18 The risk that the council suffers a loss under the framework agreement and the joint and proportional guarantee is therefore a combination of the low risk of a default by a local authority and the low risk that if a local authority does default, local authorities cannot recover sums owed to them.

3.19 In return for accepting this low level of risk, the council will receive access to more diverse and cheaper sources of capital finance via the agency. On balance, the financial advantages outweigh the financial disadvantages.

3.20 Although the agency intends that the framework agreement is permanent, there may be a need to either amend the framework agreement or if the council wishes, set aside provisions for a period of time without amending the contributions arrangements or joint and proportional guarantee.

4 The framework agreement and the joint and proportional guarantee

4.1 The framework agreement as set out in **Appendix 1** comprises:

- The *Framework Agreement* itself, which is primarily designed to prevent a call on the joint and several guarantee and lays out how the agency will interact with local authorities.

- Schedule 1: *Form of Authority Accession Deed*, which local authorities sign to commit themselves to the framework agreement.

- Schedule 2: *Form of Guarantee*, which is the joint and proportional guarantee.

- Schedule 3: *Loan Standard Terms*, which is the loan agreement that covers any borrowing by an authority.

- Schedule 4: *Form of Loan Confirmation*, which supplements the Loan Standard Terms and confirms details of a loan such as principal, maturity, interest rate and etc. It is signed by the agency and a borrower.

4.2 The LGA's revised business case highlighted the need for borrowing authorities to sign a guarantee:

- The joint and proportional guarantee allows the agency to issue bonds without having to prepare a full prospectus for each bond issue.

- If, instead of a joint and proportional guarantee, investors were investing in individual bond issues, every bond would require a separate credit rating. Investors would have to assess the participating authorities in each bond, which would materially impact an agency's ability to reduce costs and deter a number of potential investors and lenders from lending money to the agency. The joint and proportional guarantee draws on the strength of the local government sector and is simple for investors to understand.

4.3 The joint and proportional guarantee is a schedule to the framework agreement and is direct, unconditional, irrevocable and not separately administered. In practice this means that all borrowers are collectively guaranteeing the lenders to the agency against a default by a local authority.

4.4 The irrevocable nature of the guarantee means that the council will continue to guarantee the agency's borrowings until it has repaid those borrowings in full. This prevents moral hazard i.e. a local authority borrowing from the agency to achieve a cheaper borrowing rate, but walking away from the obligations. However, the proportionality means that the exposure of the council is limited i.e. it cannot be singled out to cover a default by another local authority, and that the guarantee is timebound i.e. the council is not liable under the guarantee before it has borrowed and once repayments have been made. This is significantly less risky than the unconditional joint and several guarantee that the agency required before it was reorientated.

4.5 In practice, the proportional element of the guarantee means that if the agency had £275m, which paid 3% interest, in outstanding debt, split evenly between 11 councils, and a single council defaulted on an interest payment. Each of the other participating councils would be asked to contribute 10% of the defaulted interest payment to ensure that the investor was paid on time. That would equal £75 thousand each. (The agency has a credit facility in place, which may also be used to cover this default.)

4.6 The defaulting council would then be pursued through the courts for full repayment plus interest costs. Upon resolution of council's default, it is expected that contributions would be returned with interest.

4.7 Measures are in place to reduce the possibility and scale of a default by a local authority borrowing through the pool.:

- The agency must credit assess each borrower and exclude those that do not achieve at least the equivalent of a strong investment grade rating.

- "Concentration limits" ensure that the agency will maintain a diverse loan book over time that limits the proportion of the

agency's loan book that can be lent to a single or small group of authorities.

- Credit lines are available to the agency that it must utilise in the event of a local authority missing a payment or defaulting, before it has recourse to other borrowers.

4.8 The framework agreement establishes a "contributions" mechanism that requires borrowers to lend the agency funds to cover its obligations in the event of a default by a local authority. In practice, this default is likely to be on a periodic interest payment due on the bond, and so will be of limited size. There will be time to work with the defaulting authority to correct the position before further default occurs.

4.9 The contributions to cover default are calculated in proportion to an authority's share of the performing loan book, limiting each council's exposure. The proportions are identical to those used for the joint and proportional guarantee. The loans are interest bearing and will be repaid once the agency has recovered the sums owed to it by the defaulting authority, which it is required to do by the framework agreement. If the council has no outstanding borrowings via the agency, it will not be called upon to make contributions.

4.10 The defaulting council would then be pursued through the courts for full repayment plus interest costs. Upon resolution of the council's default, it is expected that contributions would be returned with interest.

5 Financial position and financial robustness of the council

5.1 Although the council has no immediate need to borrow or refinance, entering into the framework agreement enables the council to access funding from the agency as and when required. Access to the cheapest source of finance will reduce the costs of borrowing and thus its impact on council tax.

5.2 The council has identified future borrowing needs, including approximately £350m over 10 years to deliver its programme of 1,000 new council-rented homes. Further borrowing will be needed

to support the retro-fitting of existing council homes to improve their energy efficiency and reduce their carbon footprint.

5.3 In addition, the council has approved that future funding for its General Fund capital programme will be financed from capital receipts, when available, and borrowing.

5.4 The council's revenue budget and medium-term financial strategy set out the council's financial position. The council is required to balance its budget and is subject to tight statutory controls and supervision, as highlighted elsewhere in this report. It is therefore extremely unlikely that the council will find itself in the position that it is unable to meet the requirements of the framework agreement and joint and proportional guarantee if it borrows through the pooled loans offered by the agency.

5.5 If the council were called upon, it has access to PWLB funds at short notice if required. Loans made to the agency under the framework agreement as part of the contribution arrangements could constitute capital expenditure because loans to third parties are defined as such under the *(Capital Finance and Accounting) (England) Regulations 2003* (as amended). Given that the agency is likely to recover the amounts owed to it by a defaulting authority and that the contributions are in themselves loans, the impact on the revenue budget is likely to be negligible if the council is required to make a contribution or called upon under the guarantee.

6 Risks and benefits of entering into the framework agreement

6.1 Exposure to the contribution arrangements and the joint and proportional guarantee means that entering into the framework agreement and borrowing via the Agency pooled loans is different in nature to borrowing from the PWLB.

6.2 The inherent risk is that the council could be called upon under the contributions mechanism or joint and proportional guarantee. However, the risks associated with the joint and proportional guarantee are mitigated by the contribution arrangements, such that the council's exposure, from a practical perspective, is the requirement to make contributions in the event of a default by another borrower. This exposure is proportional and is calculated

by reference to the amount borrowed by the council as a proportion of all non-defaulting loans made by the agency.

6.3 The risk of a default by a local authority is low as set out in section 3 of this report.

6.4 The Local Government Act 2003 provides several key protections to lenders that greatly reduce the possibility that the agency and therefore the council would be unable to recover sums owed to it if it is required to make a contribution or pay out under the joint and proportional guarantee.

6.5 The framework agreement requires that the agency must pursue any defaulting authority to the extent that if it does not do so promptly, borrowers can force it to do so. Furthermore, the framework agreement provides for a strict application of the proceeds of any debt recovered by the Agency from a defaulting authority.

6.6 There is a risk that the agency does not observe its obligations under the framework agreement, but the council is entitled to expect that the agency will operate in accordance with its obligations under the framework agreement when considering whether or not to enter into the framework agreement. The LGA and local authorities control the agency via their shareholdings so could intervene if the agency did not abide by the framework agreement.

6.7 The prime advantages to the council are:

- The prospect of lower borrowing costs and the possibility to obtain types of loans that are not available from the PWLB. Cheaper capital finance will reduce pressure on the council's finances. This advantage more than offsets the low risk that a local authority defaults and the agency is unable to recover the debts owed to it in order to repay the council any contributions it is required to make.

- Reducing risk by creating a new strategic source of finance that is not so readily exposed to changes in government policy

6.8 Furthermore, the framework agreement only comes into effect if the council borrows from the agency. If the council does not borrow through the pooled loans offered by the agency, there is no risk to the council arising from the contribution arrangements or joint and proportional guarantee. The council is not obligated to borrow via the agency and even if it chooses to legally commit to borrowing via a bond issue, it will not be required to take a loan that is more expensive than the PWLB.

7 Implications

a) Financial Implications

These are set out throughout the report. The council, with appropriate professional advice when required, will continue to keep all potential sources of borrowing under review.

b) Staffing Implications

There are no staffing implications arising from this report.

c) Equality and Poverty Implications

No, there are no equalities issues arising from this report.

d) Net Zero Carbon, Climate Change and Environmental Implications

By signing the framework agreement, the council would gain access to Environmental, Social and Governance (ESG) bonds.

e) Procurement Implications

None.

f) Community Safety Implications

None

8 Background papers

No background papers were used in the preparation of this report.

9 Appendices

Appendix 1: Background to the UK Municipal Bonds Agency

Appendix 2: UK Municipal Bonds Agency Local Authority Financing Framework Agreement

10 Inspection of papers

To inspect the background papers or if you have a query on the report please contact Caroline Ryba, Head of Finance and Section 151 Officer, tel: 01223 458134, email: caroline.ryba@cambridge.gov.uk

Appendix 1: Background to the UK Municipal Bonds Agency

Establishment

The establishment of the UK Municipal Bonds Agency was led by the LGA following the announcement in the 2010 Autumn Statement that PWLB rates would increase from 0.15 per cent over Gilts to 1 per cent over Gilts, greatly increasing the cost of new borrowing and refinancing. This followed the introduction of punitive early repayment penalties by the PWLB in 2007, which have prevented local authorities from restructuring their loan portfolios to reduce costs while interest rates are low. Although the Government subsequently introduced the “certainty rate”, which effectively reduced the PWLB’s margin to 0.8 per cent over Gilts in return for the limited disclosure of an authority’s borrowing plans, the LGA found that rate remained higher than a bonds agency should be able to achieve

The recent history of the PWLB highlights that the council is at risk due to changes to the PWLB’s terms and conditions. The PWLB increased its lending margin by 1 per cent in 2019 before being cut by 1 per cent in late 2020. Changes to the terms and conditions were introduced in late 2020 and further refined in 2021.

At present there are few strategic alternatives to the PWLB available and thus local authorities are reliant upon the PWLB for long term capital finance. Local authorities would never risk investing the majority of their cash balances with one financial institution, but are taking a very similar risk on sources of borrowing; and unlike a financial institution, the PWLB’s terms and conditions can be changed at will.

The LGA also noted that it was easy for UK investors such as pension funds to provide capital to overseas local authorities through the London capital markets, but not so to UK local authorities.

The LGA published a revised business case in March 2014 that set out how a bonds agency would issue bonds on behalf of local authorities in an efficient and cost-effective manner and at lower rates than the PWLB. It identified that the regulatory environment meant that the PWLB had a de facto monopoly on providing simple loans to local authorities:

For regulatory purposes a bank must set aside capital when lending to local authorities – unlike when lending to the Government – and

therefore it is difficult for banks to compete with the PWLB on rates and make money other than by offering structured lending products.

Bond investors value liquidity and benchmark sized issues (£250 million), which makes it difficult for most local authorities to access the bond markets, particularly as one-off bond issues can be costly.

Investors would typically lend only for large projects or invest in liquid benchmark sized bond programmes, typically around £250 million plus, thereby excluding most local authorities from the capital markets.

The LGA's revised business case was published in March 2014 and the company established in June 2014. The LGA and 56 local government shareholders representing 65 principal local authorities and 1 combined authority invested over £6 million in the agency to establish its operations. The council is a shareholder in the agency with a total investment of £50,000.

Reorientation of the UKMBA

The agency found it difficult to establish itself and to issue a bond into the market. Its initial pooled bond issue was indefinitely postponed due to a potential borrower pulling-out immediately prior to work commencing on the bond. Subsequently, despite widespread support at the outset for its proposed lending framework, concern grew regarding the joint and several guarantee arrangements necessary, at the time, to support the pooled bonds. In 2019, the decision was taken to outsource the agency's operations and to reform its offer to local authorities.

PFM the largest financial advisor to the public sector in the US, was appointed managed service provider in late 2019 following an OJEU compliant procurement process. PFM has taken over the day-to-day operations of the agency comprising lending, borrowing and credit management. The LGA has taken over the accounting and company secretariat functions, which includes oversight of the contract with PFM.

At PFM's recommendation, the agency now offers two main lending programmes:

Loans of £1 million or more that are pooled and funded through bond issues that are cross-guaranteed by all local authorities participating in the pool.

Loans of £250 million or more to either a single, or small group of local authorities, that are outside the pool and the associated guarantee, referred to as "standalone" by the agency.

The agency maintains a credit process and full oversight over the pooled loans. For standalone loans, a local authority must obtain a credit rating from at least one of Moody's, Standard & Poor's or Fitch with the agency leaving it to the market to determine the credit worthiness of the borrower through the matching bond issue.

The primary benefits of the standalone bonds to local authorities with sufficient borrowing needs are that the agency undertakes has established bond documentation and does most of the work, thereby reducing the cost of bond issuance to the local authority and providing expertise where a local authority does not possess such skills.

The agency has introduced a Environmental, Social and Governance ("ESG") Framework that enables it to issue green, social and sustainable bonds. ESG bonds offer slightly better pricing and would help demonstrate the council's commitments the environment and public services.

The agency has established a special purpose vehicle ("SPV") to issue bonds on its behalf and to fund the loans to local authorities. This has the following benefits:

- Remove the UKMBA as a point of credit from the bonds.
- Enable the UKMBA to be closed or made completely dormant without precipitating a bond default.
- Reduce the scope for the UKMBA's bonds to become subject to withholding tax.

The agency does not hold significant capital and is financially not as strong as local authority borrowers that can rely on the government for financial support and have access to the PWLB as lender of last resort. Therefore, bonds issued directly by the agency could attract a higher rate of interest than would be the case if local authorities were accessing the capital markets directly. To nullify the potential risk, the agency issues its bonds through the SPV and all loan repayments are routed through the SPV.

Use of the SPV in this manner also enables the UKMBA to be closed or made dormant were the PWLB to reduce its margins below that available in the capital markets or local authorities' ability to borrow curtailed. Without the SPV, were the UKMBA to be closed or made dormant, any bonds in issue would be in default and might have to be repaid early.

With the UKMBA becoming 100 per cent owned by local authorities, directly and indirectly, due to the LGA becoming a formal body 100 per cent owned by local government, there was greater scope for HMRC to determine that the UKMBA's bonds should be subject to withholding tax were the UKMBA to issue bonds directly. Local authorities are unable to avail themselves of the quoted Eurobond exemption that allows UK entities issuing quoted bonds to pay interest without deducting withholding tax. Were the UKMBA's bonds subject to withholding tax, the effective interest rate on the UKMBA's loans would be much greater than that of PWLB loans.

Client base

The agency will only lend to UK local authorities that can give a joint and proportional guarantee for pooled loans and guarantee a standalone bond. In England, this is currently limited to the principal English local authorities that have the general power of competence under section 1(1) of the Localism Act 2011 and certain combined authorities. The Ministry for Housing, Communities and Local Government specifically intended that local authorities should be able to give guarantees using the power in its regulatory impact assessment.[1]

Northern Irish local authorities have the general power of competence via legislation specific to Northern Ireland and the ability to give guarantees may in due course be extended to other local authorities e.g. Welsh or Scottish authorities. It is likely that where feasible to do so, the agency will establish separate pools for the devolved nations.

Loan pricing

The agency operates a transparent pricing structure. It will charge local authorities the interest the agency pays to obtain the funds it on-lends, plus transaction costs, plus a margin to cover its costs. This margin is

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[1] Certain county fire authorities may have the general power of competence, but the Agency has not sought legal opinion concerning fire authorities.

currently set at an annualised 0.05%, which will be reduced for new and existing borrowers as the Agency's finances are strengthened.

The agency may adjust these margins for new borrowing transactions at its discretion, although it is expected that these margins will reduce once the agency is profitable.

Transactions costs include the agency's credit rating agency fees, bank syndicate fees and legal costs. The council has the option to amortise these over the life of the loan or to expense them at the time of borrowing.

The UKMBA has two bonds in issue at this time, both issued to fund loans to Lancashire County Council. Both of the bonds trade at yields that are considerably below the interest rates offered by the PWLB, thereby proving the agency's business case that it can deliver loans that are cheaper than the PWLB:

- The 5-year bond is currently priced at 0.55 per cent over Gilts, which is 0.25 per cent below the PWLB certainty rate of 0.8 per cent over Gilts.

- The 40-year bond is currently priced at 0.71 per cent over Gilts, which is 0.09 per cent below the PWLB certainty rate.

As at 31 August 2021, the agency was quoting the following loan rates:

Standard Loan Rates

	Margin over Gilts (%)	Fixed Rate (%) (Inclusive of all fees)	Saving to PWLB Certainty Rate (%)
5-yr	0.54	1.04	0.08
10-yr	0.62	1.41	0.05
25-yr	0.67	1.78	0.06
45-yr	0.76	1.63	0.02

Lifetime Savings per £250 million over PWLB	Lifetime Savings per £100 million over PWLB
1,035,085	414,034
1,335,085	534,034
3,810,085	1,524,034
1,722,585	689,034

ESG Loan Rates

	ESG Margin over Gilts (%)	Fixed Rate (%) (Inclusive of all fees)	Saving to PWLB Certainty Rate (%)
5-yr	0.51	1.01	0.11
10-yr	0.59	1.38	0.08
25-yr	0.64	1.75	0.09
45-yr	0.73	1.60	0.05

Lifetime Savings per £250 million over PWLB	Lifetime Savings per £100 million over PWLB
1,410,085	564,034
2,085,085	834,034
5,685,085	2,274,034
5,097,585	2,039,034

The Aaency will not require local authorities to borrow at a rate that is higher than the PWLB, thus when borrowing via the agency the council should always achieve a saving. Over time, the rates offered by the agency are likely to improve as its bonds programme develops and it is able to borrow from international institutions such as the EIB.

Early repayment (Prepayment)

The agency will pass on the cost of early repayment by a local authority (usually referred to as prepayment in financial services) to that local authority. However, the agency will not profit from the transaction and will assist any local authority seeking early repayment to find the cheapest solution.

Prepayment rights will track through between the loans to local authorities and the Aaency's financing. For bond issues, voluntary prepayment is calculated in a similar way to the PWLB's early redemption penalties, although one option available to local authorities will be to buy back part of the bond.

Governance

The agency is a public limited company and as such is directed by its Board.

In addition, the Board will have the following 2 sub- committees, chaired by independent non-executives:

- Risk, Audit and Compliance Committee; and
- Nomination and Remuneration Committee.

Credit process

Prior to approving any pooled loans, the agency will carry out a credit assessment of each potential borrower.

The agency has developed a proprietary credit scoring model based on similar methodologies to the main credit rating agencies. In order to access funding from the agency, a local authority will need to be able to achieve a "single A" credit rating on a standalone basis; rating agencies typically "notch up" a local authority to account for implied Government support.

The model is based on Moody’s, one of the main three global credit ratings agencies. It has been reviewed independently by Ernst & Young to validate its robustness and fitness for purpose. The model looks at both quantitative, e.g. the financial performance of the council, the existing level of borrowing, how much flexibility does the council have in generating revenues and qualitative factors, e.g. is the council heavily dependant upon revenues from a single business or industry, has the council had governance, audit or other performance related issues.

The agency will assess the council informally, upon an expression of interest, and advise if there are likely to be any credit related problems in advance of any formal request for borrowing

In addition to credit scoring, the agency will ensure appropriate diversification of its lending portfolio, through concentration limits that limit the amount of the pool that can be lent to any one local authority.

The agency will not conduct any credit assessment of any borrower taking out a standalone loan.