West Lindsey District Council
The Entrepreneurial Council

Report Number
Corporate Policy and Resources Committee
Date 22nd September 2016

Subject: Potential Commercial Loan to the Local Government Association (LGA)

Report by:	Ian Knowles Director of Resources (S151)
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Purpose / Summary:	To consider the opportunity to make a loan to the LGA and participate in the MBA's first bond with the financial markets.

RECOMMENDATION(S):

1 – That members consider the potential to make a loan to the LGA on a commercial basis.

2 – That members approve a Capital Budget funded from MBA borrowing should they support this proposal.

IMPLICATIONS

Legal: Lending to other parties is within the Authority's powers. **Legal due diligence on the arrangement would need to be carried out as part of the finalisation of the loan agreement.**

Financial Implications: FIN/71/17 Should members agree to this arrangement a capital budget will require approval. This loan investment will generate revenue income to the Council, dependent upon the amount of the loan and agreed margins - the likely income is in the region of £25k to £100k per annum. There will be costs attributable to the setting up of the arrangement however these will be covered by a set up charge to the borrower.

Staffing : No implications

Equality and Diversity including Human Rights : No Implications

Risk Assessment : The risk of default by the LGA is considered to be low however the arrangement would include a charge on the Hayden House in London currently valued at £25m

Climate Related Risks and Opportunities : None
Title and Location of any Background Papers used in the preparation of this report:

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

1. **Background**

1.1 In June of this year the Chief Executive received an email from Sarah Pickup, the Deputy Director of the LGA, asking Local Authorities if they would be interested in lending to the LGA for the purposes of building refurbishment and at the same time supporting the MBA in its first market bond in order to fund the loan.

1.2 There have been a three tele-cons since the initial contact and I understand that three Local Authorities remain interested in proceeding.

1.3 A key point of the conversation has been what an appropriate markup would be for the lending authorities, ourselves and Westminster have indicated early on we would be looking for a 1% markup against the rate we obtained from PWLB or the market if supported by the MBA whilst the LGA are of the opinion .5% is more acceptable.

2. The proposition

2.1 Following the telephone conversations the following proposal has been received from the LGA:

a) Borrow between £5m and £10m (total to be borrowed from across LA's is £20m).
b) At a rate equivalent to PWLB or better (if through the MBA) plus a margin.
c) The margin expected from the LGA is .5% (I believe we should ask for greater than .5% but being reasonable. Our margin should not take the gross rate payable above the bank comparator being used currently 2.66%)
d) Security would be through a charge on Hayden House currently valued at £25.6m
e) The LGA ae looking to make arrangements with three or four Authorities.
f) Appropriate set up fees should be charged. The bank comparator here is 1% arrangement fee and 1% commitment fee.

2.2 The Potential revenue return could be:

.5% pa	£5m	£25k
	£10m	£50k
.75%	£5m	£37.5k
	£10m	£75k
1.0%	£5m	£50k
	£10m	£100k

In addition there would be the opportunity for a set-up fee which if we asked for .5% would provide a one off amount of £25k or £50k depending on the amount loaned.

We would need to assess the work involved and the costs of legal advice before finalising a set-up fee.

2.3 A further condition of the proposal is that the Authority loaning the money should commit to supporting the first Bond to be issued by the MBA as a way of supporting the MBA in taking its first Bond to market and establish the principle of Local Authorities collectively going to the market for borrowing. We have agreement from our members to access the MBA if it is appropriate (we are only required to take up the bond should the rate be better than that on offer from PWLB).

3 Conclusion

The proposal meets with our commitment of being entrepreneurial and commercial although the proposal has not been through our financial modelling at this stage.

This is potentially different to other schemes we have considered as this has additional aspects which include:

a) We are members of the LGA and would therefore be supporting an organisation we are familiar with and understand its purpose and reason for existing,
b) We are also equity members of the MBA and therefore this approach supports an organisation we have committed to support where it continues to be in our interests,
c) The rationale for this approach is to seek to keep local government funds within the local government 'family'. Ensuring that Local Authorities benefit from the LGA borrowing and not banks.

The nature of the organisation concerned indicates that there is a strong covenant on the loan and the security of Hayden House has significant credibility.

The risks involved are on two aspects:

a) The bond arrangement with the MBA involves a joint and several liability clause which means that all members of the initial Bond are liable should another member fail to repay. This is mitigated to some degree by the stringent checks and assessments undertaken by the MBA before allowing a Local Authority to participate. However the risk is still real however unlikely it is to crystallise.

b) The LGA as a membership organisation and therefore dependent on fees to continue as a going concern. In addition, its proposals to support this refurbishment programme has a commercial aspect that will be dependent on the market and its capacity/ability to deliver against commercial objectives. The security of the building provides comfort that a failure to repay would result in crystallising the charge against the building.

If we agree to support this proposal then we will run the figures through the financial modelling we have applied to all projects and seek to obtain member support at the next Commercial Members Steering Group and Corporate Policy and Resources Committee.