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Municipal Bonds Agency – more than just about cheap finance!

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Councils are facing an uncertain financial outlook due to COVID-19 which has increased the cost of delivering their services and reduced their income for example due to reduced car parking and leisure centre income as residents remain locked down. Also, the risk of business failures could negatively impact on business rates receipts.

Local authority funding was already under severe pressure pre-COVID-19 and there was the uncertainty with the ongoing Business Rates and Fairer Funding Reviews. Now the landscape has been exacerbated post-COVID 19. However, despite all these challenges, there is a positive development. The UK Municipal Bonds Agency (UKMBA) offers alternative finance for local authorities to Public Works Loan Board (PWLB) funding and substantial sums are now being raised. In March 2020, the agency issued its inaugural £350 million bond on behalf of Lancashire County Council and it has announced that Westminster City Council and Barnsley MBC will take part in its first pooled bonds issue.

This aggregator model is established in the social housing sector with The Housing Finance Corporation and MorHomes and this model is now offering solutions to local authorities – and these solutions are more than just cheaper finance compared to the PWLB rate. The certainty of funding that UKMBA can offer is equally important in these challenging times.

The Lancashire County Council bond was attractively priced with a 5-year floating rate note, priced at 0.8 per cent over SONIA. That meant that the interest rate was 1.08 per cent lower than the PWLB 5-year maturity rate and it is reported that the council saved around £20m by borrowing through UKMBA instead of the PWLB.

UKMBA also offers councils diversification as it makes the capital markets more attractive and accessible for councils and that became increasingly relevant after the Treasury decided in October to add 100 basis points to the rate at which they can borrow from the PWLB. That lifted the total cost of borrowing to 180 basis points over gilts.

PWLB also carries political risk as Government needs to stimulate or control funding and uses PWLB as a tool to achieve that. With an economy and public services in need of further investment and support as result of COVID-19, the ability for councils to rely on the capital markets as an alternative funding stream becomes very attractive.

And UKMBA's funding structure has been changed to further assist councils. Some councils were cautious about committing to borrow money from the agency due to the "joint and several guarantee" that could have left councils responsible for repayment liabilities if other councils defaulted. However, UKMBA has since announced that these guarantee terms will be altered to allay the concerns of councils.

In December 2019 48 councils had signed up to become shareholders in UKMBA and that number has since grown to 56. That is a positive sign that UKMBA is to be increasingly active in supporting the local authority sector over the coming challenging period.

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