Council			
REPORT TITLE	**Municipal Bonds Agency**		
KEY DECISION	No	**Item No:**	
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date:**	17TH Sept 2014

1. SUMMARY

1.1. The Local Government Association (LGA), on behalf of local authorities nationally, is working on the creation of a Municipal Bonds Agency (MBA). The purpose of the MBA is to raise capital on the financial markets through the sale of bonds and on lend the proceeds to eligible councils at a lower rate than the Public Work Loans Board (PWLB) or than if the councils were to issue their own bonds.

1.2. Local Authority borrowing in the UK, as of 31 March 2013, amounted to £84.5 billion, of which £63.4 billion was from the PWLB. With 75 per cent of council long-term borrowing coming from the PWLB, the hike at the end of 2010 in PWLB interest rates by the Treasury, to one per cent above the gilt rate (subsequently reduced), highlighted the dependency of local authorities on the PWLB.

1.3. The LGA are now seeking commitments from individual Authorities to become shareholders in the MBA and provide the necessary working capital to enable the MBA to be established and seek regulatory approval. The proposed commitment from Lewisham is £25,000 as a shareholder and up to £200,000 of working capital.

1.4. The risks for Lewisham are that, once operating, the MBA is unable to raise capital at favourable rates or interest sufficient Authorities to work together to align their borrowing requirements (by term, at the time and with a shared liability) to share the risk on individual bonds of a sufficient scale to interest the markets.

1.5. Mayor & Cabinet on the 3 September 2014 approved the recommendations below for Council. A more detailed consideration of the business case for the MBA is set out in the Mayor & Cabinet report provided at Appendix 1 to this report.

2. RECOMMENDATION

2.1. In respect of the Local Government Association's business case for the creation of a Municipal Bonds Agency, Council are recommended to agree that Lewisham:

- subscribe for 25,000 ordinary shares of one pence each in the capital of the Company in the First Fundraising for a consideration of £25,000 representing a price of £1 per ordinary share; and

- commit up to £200,000 to the Second Fundraising, it being acknowledged that this commitment will be subject, among other things, to agreement of satisfactory legal documentation.

3. FINANCIAL IMPLICATIONS

3.1. The financial implications for Lewisham of the recommendation to become a founding shareholder of the Municipal Bonds Agency (MBA) being established by the Local Government Association (LGA) are £225,000. £25,000 in the form on an initial shareholding and £200,000 in the form on an investment in the MBA to provide it with the necessary liquidity to obtain regulatory approval and begin trading. If agreed these funds will be committed from the Council's general fund resources.

3.2. This investment, as with any other in a commercial entity, is at risk should the operations of the company fail. As a limited liability company the risk from the shareholding investment is limited to £25,000. The £200,000 will be at risk once the company starts trading and subject to the first bonds performing as anticipated in the LGA's business case.

4. LEGAL IMPLICATIONS

4.1. The Local Government Association have taken expert legal advice upon the relevant powers for councils to participate in a national Municipal Bonds Agency (the Company) and on the appropriate structure and governance arrangements for the Company to ensure compliance with each Administering Authority's Statutory duties in relation to the Agency.

4.2. The Company will be subject to the regulatory control of the Financial Conduct Authority.

4.3. If the Council does determine to invest in the Municipal Bonds Agency it is not committed to using the Agency for its borrowing needs.

5. CRIME AND DISORDER IMPLICATIONS

5.1. There are no crime and disorder implications directly arising from this report.

6. EQUALITIES IMPLICATIONS

6.1. The Equality Act 2010 became law in October 2010. The Act aims to streamline all previous anti-discrimination laws within a Single Act. The new public sector Equality Duty, which is part of the Equality Act 2010, came into effect on the 5 April 2011.

6.2. The Council's Comprehensive Equality Scheme for 2012-16 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010. No direct equalities implications have

been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

7. ENVIRONMENTAL IMPLICATIONS

7.1. There are no environmental implications directly arising from this report.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact:

David Austin, Head of Corporate Resources on 020 8314 9114, or
Adeola Odeneye Principal Accountant Strategic Finance on 020 8314 6147

Appendix 1 – Mayor & Cabinet report on Municipal Bonds Agency

MAYOR AND CABINET			
REPORT TITLE	**Local Government Association – Municipal Bonds Agency**		
KEY DECISION	No	**Item No:**	
WARD	All		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	**Date:**	3 September 2014

1. SUMMARY

1.1. The Local Government Association (LGA), on behalf of local authorities nationally, is working on the creation of a Municipal Bonds Agency (MBA). The purpose of the MBA is to raise capital on the financial markets through the sale of bonds and on lend the proceeds to eligible councils at a lower rate than the Public Work Loans Board (PWLB) or than if the councils were to issue their own bonds.

1.2. Local Authority borrowing in the UK, as of 31 March 2013, amounted to £84.5 billion, of which £63.4 billion was from the PWLB. With 75 per cent of council long-term borrowing coming from the PWLB, the hike at the end of 2010 in PWLB interest rates by the Treasury, to one per cent above the gilt rate (subsequently reduced), highlighted the dependency of local authorities on the PWLB.

1.3. The LGA are now seeking commitments from individual Authorities to become shareholders in the MBA and provide the necessary working capital to enable the MBA to be established and seek regulatory approval. The proposed commitment from Lewisham is £25,000 as a shareholder and up to £200,000 of working capital.

1.4. The risks for Lewisham are that, once operating, the MBA is unable to raise capital at favourable rates or interest sufficient Authorities to work together to align their borrowing requirements (by term, at the time and with a shared liability) to share the risk on individual bonds of a sufficient scale to interest the markets.

2. RECOMMENDATION

2.1. Mayor & Cabinet are recommended to propose to Full Council to agree that in respect of the Local Government Association business case for the creation of a Municipal Bonds Agency Lewisham:

- subscribe for 25,000 ordinary shares of one pence each in the capital of the Company in the First Fundraising for a consideration of £25,000 representing a price of £1 per ordinary share; and
- commit up to £200,000 to the Second Fundraising, it being acknowledged that this commitment will be subject, among other things, to agreement of satisfactory legal documentation.

3. BACKGROUND

3.1. The Municipal Bond Agency (MBA) will be a limited company owned by Local Authorities as the shareholders, established to raise capital on the financial markets to lend onto Local Authorities, and regulated by the Financial Conduct Authority.

3.2. In July 2013 the Local Government Association (LGA) launched Rewiring Public Services, which led to the revitalisation of the MBA project and the development of a revised business case. The business case was endorsed by the LGA's Executive Board on 20 March 2014. A two page summary of the business case is presented in Appendix A along with a link to the full case.

3.3. The broad principle of the agency is that it will raise capital on the financial markets through the sale of bonds and on lend the proceeds to eligible councils at a lower rate than the PWLB or than if the councils were to issue their own bonds.

3.4. There are other opportunities beyond price that arise from the creation of the MBA for councils to consider. They include:

- Reducing exposure to shifting government lending policies through increased competition and diversity of lending sources.
- Creation of a potential new mechanism for prudent investment by pension funds in local government infrastructure.
- Increased transparency and borrowing: while the PWLB processes are very efficient, they don't carry the normal level of scrutiny lending large sums of money would entail. Experience in other countries has shown that an Agency's credit processes aligned with the incentive of lower borrowing costs, and the oversight of peers, has strengthened the overall credit worthiness of councils.
- The creation of a centre of expertise at the intersection between capital markets and local government finance.
- Tailored flexibility evolving from the development of the centre of expertise.

3.5. The proposals are grounded in the prudential code and the revised business case reinforces the principle that borrowing by councils must be prudent and affordable.

3.6. The coordination of the set up of the company continues to be overseen by the LGA. At launch, it is expected that the Board of Directors will formally take control of the Agency. The Board will consist of: three members elected by

shareholders, one of whom will be the Chair; a debt capital markets expert; a risk management expert; two council finance directors or equivalent.

3.7. The LGA announced in July 2014 that 22 councils had made commitments to become shareholders of the MBA and contribute to the raising of the initial risk capital required. These commitments are in excess of the minimums required by the business case to initiate the creation of the MBA. Furthermore it expects the investor base to continue to grow.

3.8. Based on these commitments the LGA has established the necessary shell operating company which it is now preparing to present for regulatory approval so that it can begin trading.

4. MAIN CONSIDERATIONS

4.1. Local Authority borrowing in the UK, as of 31 March 2013, amounted to £84.5 billion, of which £63.4 billion was from the Public Work Loans Board (PWLB). With 75 per cent of council long-term borrowing coming from the PWLB, the hike at the end of 2010 in PWLB interest rates by the Treasury, to one per cent above the gilt rate (although subsequently reduced), highlighted the dependency of local authorities on the PWLB.

4.2. The business case presents a base case, recognising estimates of the savings versus the PWLB vary and will develop as the Agency matures and volumes expand. The base case anticipates that if the Agency achieves the same pricing as Transport for London ("TfL"), the nearest market comparable, then savings should be approximately 5 basis points, and it may be able to achieve an additional ~5 basis points, with a sufficiently compelling relative value proposition. The base case, from analysis of current local authority borrowing practice and future borrowing need, expects the MBA to issue bonds in benchmark sizes of £250 million to £300 million.

4.3. However, the business case also identifies that the Agency has the opportunity to structure itself in such a way as to achieve AAA / Sovereign like ratings, in which case, conservative estimates would put savings at between 5 and 10 basis points on top of the base case. As the Agency matures, it should expect, with an AAA / Sovereign like rating to achieve pricing closer to Manchester or Cambridge University, delivering savings of 20 to 25 basis points.

4.4. The business case recognises that the challenge in achieving an AAA / Sovereign like rating is not to be underestimated and will require significant credit enhancement. The risk of not achieving AAA / Sovereign like rating will be materially mitigated with significant first loss / risk capital, (between 3 and 5%, which can be used for liquidity purposes), adequate liquidity, a Joint and Several Guarantee from borrowers and a suitably diversified portfolio of borrowers, which meet the requirements of a rigorous credit process.

4.5. In any event, the business case identifies a number of other factors will influence pricing. The Agency is likely to suffer a new issue premium and a

liquidity premium, reflecting the fact that the Agency will be a new issuer to the market and will not have covered the maturity profile / built a yield curve. These premiums should evaporate within one to two years, but will impact the level of savings available to early borrowers. Another key concern will be the ability to issue bonds in benchmark sizes (i.e. £250 to £300 million). Failure to do so will add up to 20 basis points to the bond pricing, and eliminate any potential savings for early issuances.

4.6. An additional point for consideration is the level of complexity in the bond structure. Investors have limited resources for reviewing new bond issuances, so complexity becomes a deciding factor. With a Joint and Several Guarantee, the level of complexity reduces. Bonds can be listed on the London Stock Exchange, taking advantage of the listing exemptions for Local Authorities, otherwise overseas exchanges may need to be considered.

4.7. The business case expectation is that in subsequent issuances, the Agency should aim to cover more of the maturity profile, and accordingly, target £500 million plus of issuance from March / April 2016, in appropriate maturities. Notwithstanding the demand identified as part of the survey, the Agency would need to have visibility on issuing approximately £750 million per annum in the early years. The LGA estimate that this represents approximately 25% market share of Local Authority borrowing.

4.8. The business case recognises that Local Authorities will have concerns over issuing a Joint & Several Guarantee. It suggests that there are significant protections within the statutory framework which governs Local Authority finances (e.g. the Prudential Code) and implied Government support, which is somewhat evidenced by the operations of the PWLB, etc. English law contains a number of protections, such as a right of indemnity, that help ensure that guarantors can recover payments they make under the guarantee.

4.9. Nevertheless, the business case identified that it would be appropriate to underpin a Joint and Several Guarantee with a Right of Recourse, or equivalent, which ensures that in the event of any loss, the amount in default is distributed proportionately amongst those providing the Guarantee (i.e. the borrowers from the Agency). Even in the event a Guarantee is called, it should be noted that creditors will still have access to the High Court process, that enables a High Court appointed administrator to ‘take control’ of certain aspects of a Local Authority’s finances, which in this scenario would be done under the auspices of the Agency. The LGA have sought legal advice from leading counsel, which is unequivocal that such a Joint & Several Guarantee would be within vires, for English councils, available under the General Power of Competence created by the Localism Act.

4.10. Once established, to fund the ongoing business activities of the MBA the operating model proposed envisages a simple and transparent pricing mechanism, with 10 basis points added to the interest margin for borrowers to cover the Agency’s costs. Variable pricing, based on borrower creditworthiness,

was reviewed and not considered appropriate. The Board of the Agency should review the Agency's pricing and pricing strategy on a regular basis.

4.11. The LGA have prepared some Frequently Asked Questions and Answers and these are presented at Appendix B.

5. LEWISHAM COMMITMENT

5.1. Lewisham have given the LGA a non-binding letter of intent (Appendix C), subject to agreement by Full Council, to become a shareholder in the MBA for the mobilisation phase and make a contribution to the operating risk capital.

5.2. There are two steps to the creation of the MBA. The first concerns Lewisham's commitment to it's mobilisation and related governance. The second Lewisham's use of the MBA as a counter party for raising borrowing in the future.

5.3. To enable the MBA to be created with appropriate governance so that it can seek regulatory approval and become active, the LGA need to identify those local authorities who wish to be owners and shareholders. These shareholders need to raise the initial capital to enable the MBA to operate. The capital is in two parts: 1) a shareholding in the form of a number of £1 shares, and 2) an investment towards creating the necessary working or risk capital to provide the MBA with the necessary liquidity to issue bonds to the market on favourable terms. The required shareholding capital to enable mobilisation is estimated at £0.8 to £1.0 million and the risk capital at £8 to £10 million (see business case at Appendix A).

5.4. The opportunity from these investments is twofold. In respect of the shareholding investment, dividends will be earnt from the profits made by the MBA operations. In respect of the risk capital, the plan is to return this to shareholders overtime with interest (estimated at up to ten years in the business case) as the MBA is able to set aside it's own risk capital from the successful trading on bonds issued.

5.5. Nonetheless it should be recognised that both forms of initial investment are at risk should the MBA fail. The greatest risk is with the shareholding capital which will have been spent before the success or failure of the MBA is known. The risk capital is less risky as it is unlikely to be committed in full (and therefore available to be returned) if the MBA fails to raise the necessary business.

5.6. The recommendations, consistent with the letter of intent issued in July (see Appendix C), are for Lewisham to:

- subscribe for 25,000 ordinary shares of one pence each in the capital of the Company in the First Fundraising for a consideration of £25,000 representing a price of £1 per ordinary share; and
- commit up to £200,000 to the Second Fundraising, it being acknowledged that this commitment will be subject, among other things, to agreement of satisfactory legal documentation.

5.7. No recommendation is being made at this stage about whether Lewisham should participate in a bond issuance of the MBA. This is because Lewisham does not currently have a borrowing requirement, the terms and credit rating process for participating authorities is not yet defined, and the terms of any joint and several guarantee are not yet confirmed. Should Lewisham wish to consider borrowing from the MBA at a future date a separate report will be brought forward for decision.

5.8. If agreed these recommendations will be an addition to the Council's Treasury Management Strategy (TMS). As such they will be reflected in the annual refresh of the TMS when it is brought forward with the budget in February 2015.

6. FINANCIAL IMPLICATIONS

6.1. The financial implications for Lewisham of the recommendation to become a founding shareholder of the Municipal Bonds Agency (MBA) being established by the Local Government Association (LGA) are £225,000. £25,000 in the form on an initial shareholding and £200,000 in the form on an investment in the MBA to provide it with the necessary liquidity to obtain regulatory approval and being trading. If agreed these funds will be committed from the Council's general fund resources.

6.2. This investment, as with any other in a commercial entity, is at risk should the operations of the company fail. As a limited liability company the risk from the shareholding investment is limited to £25,000. The £200,000 will be at risk once the company starts trading and subject to the first bonds performing as anticipated from the LGA's business case.

7. LEGAL IMPLICATIONS

7.1. The Local Government Association are taking external expert legal advice upon the relevant powers for councils to participate in a national Municipal Bonds Agency (the Company) and on the appropriate structure and governance arrangements for the Company to ensure compliance with each Administering Authority's Statutory duties in relation to the Agency .

7.2. The Company will be subject to the regulatory control of the Financial Conduct Authority.

7.3. If the Council does determine to invest in the Municipal Bonds Agency it is not committed to using the Agency for its borrowing needs.

8. CRIME AND DISORDER IMPLICATIONS

8.1. There are no crime and disorder implications directly arising from this report.

9. EQUALITIES IMPLICATIONS

9.1. The Equality Act 2010 became law in October 2010. The Act aims to streamline all previous anti-discrimination laws within a Single Act. The new

public sector Equality Duty, which is part of the Equality Act 2010, came into effect on the 5 April 2011.

9.2. The Council's Comprehensive Equality Scheme for 2012-16 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

10. ENVIRONMENTAL IMPLICATIONS

10.1. There are no environmental implications directly arising from this report.

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact:
David Austin, Head of Corporate Resources on 020 8314 9114, or
Adeola Odeneye, Principal Accountant Strategic Finance on 020 8314 6147.

APPENDIX A

Local Government Association
Business Case Summary
20 March 2014
Municipal Bonds Agency

Public interest case

1. Councils source 75 per cent of their borrowing from the Public Works Loans Board (PWLB). That leaves councils vulnerable to interest rates set to deliver the government's public borrowing plans. The Municipal Bonds Agency would give councils greater control of interest rates and introduce competition and diversity to the marketplace. The Agency could also offer lower penalties for early repayment of loans.

2. Nordic experience has shown that an agency's credit processes, with the incentive of lower borrowing costs and the oversight of peers, has strengthened the overall credit worthiness of local authorities.

3. The experience of the Nordic Agencies has also shown that the Agency could pass onto councils the benefit of its research into public sector financing. From this expertise it would be possible to develop advisory and tailored lending services and potentially facilitate intra authority lending.

Local Authority and investor demand

4. Councils will have new borrowing requirements for their capital programmes. Our survey identified a borrowing requirement of £5 billion over the next three years from just 46 councils, with 43 expressing an interest in using the Agency. The outstanding stock of PWLB debt matures at £1.7 billion a year. Much of that will require refinancing. Borrowing from banks is forecast to become increasingly expensive. It is estimated that annual local authority borrowing over the next three years will be between £3billion and £5 billion.

5. Banks have indicated a likely significant investor demand for the Agency's bonds. At the same price as Transport for London (TfL)'s double-A rated bonds, council borrowers would save around five basis points (bps) against the PWLB certainty rate (80bps). To achieve better bond pricing, the Agency would need an AAA/sovereign like rating. That could be achievable by holding risk capital between three and five per cent; holding adequate liquidity; providing a joint and several guarantee from borrowers; and ensuring a diverse portfolio of borrowers. An AAA/sovereign like rating combined with a joint and several guarantee should deliver significant savings to borrowers.

6. Because the Agency will be new to the market, it is likely to need to pay a new issue premium in the first one to two years. This will affect the level of savings available to early borrowers. The savings in the previous paragraph will also depend on being able to issue bonds in benchmark sizes of between £250 million to £300 million; otherwise investors will demand a premium for illiquidity.

Joint and several guarantee

7. A joint and several guarantee creates the prospect of much cheaper borrowing. It will also enable the bonds to be listed on the London Stock Exchange. Overall a joint and several guarantee could expect to reduce the Agency's borrowing costs by 20 to 25 bps, saving £6.2 million to £7.5 million over the life of a 30 year £100million loan. The risks of offering a joint and several guarantee are mitigated by:

8.
   - Security over borrowing and the High court process
   - Proportionality/right of recourse
   - The risk capital and liquidity of the Agency
   - The Agency's credit processes
   - Statutory and budgetary controls in councils
   - The prudential code and minimum revenue provision
   - The statutory responsibilities of Finance Directors (section 151 officers)
   - Access to the PWLB
   - Government reserve powers.

Operating model and capital structure

9. The Agency should issue two bonds in its first year with approximately 30 to 40 borrowers. For the initial issues, council borrowing will need to match the bonds' maturity profiles. Agency staffing will start small and grow as the volume of transactions does. Most functions will be outsourced. The Agency is expected to break even by year three after around £2 billion of bond issuance. It is estimated £8 million to £10 million of operating capital will be needed to cover launch and early operating costs and provide a buffer against risks.

10. The Agency's operating capital should be raised from councils or related bodies as common equity. An equity structure would allow the trading of shares and give the Agency a decision making framework over profit retention and dividends. The shareholding structure would have limits on individual level of control and give a fair return to initial shareholders for risk taking. Voting and economic rights should be de-coupled.

11. Risk Capital will be required to support the first loss protection in the event of a borrower default and should be equivalent to three to five per cent of the loans made to councils. It will be raised through a proportion of a loan taken out by a borrower being retained by the Agency.

Timeline

12. The Agency should aim to issue its first bond to match the March/April 2015 peak in council borrowing. A mobilisation phase should start once the decision to proceed is made and last six months. The mobilisation phase will cost approximately £0.8 million and would establish the corporate structure; hire of key personnel; establish the Board; identify the initial list of borrowers and investors in the Agency; design key policies and processes.

Governance

13. Control should rest with the LGA as the project sponsors in mobilisation phase. A project board should oversee execution, with CFO and political groups retaining an advisory role. Once appointed the Board of Directors (BoD) may operate in a shadow capacity until launch. The project board in consultation with the BoD will determine the point at which the project moves into launch.

14. At launch, the BoD will formally take control of the Agency. The BoD will consist of: three members elected by shareholders, one of whom will be the Chair; a debt capital markets expert; a risk management expert; two council finance directors or equivalent. The CEO may be a Director. The initial board will be appointed by the LGA in conjunction with the project board and in consultation with the shareholders.

Risk

15. There are five key risks at this stage the most significant being that it may not be possible to raise the operating capital from councils or related bodies, despite it being an attractive investment. Other risks relate to council demand; market pricing; PWLB lowering its interest rates; and attracting the right calibre of personnel.

For more information please contact

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For the full business case please follow this link to the LGA website
http://www.local.gov.uk/finance/-/journal_content/56/10180/3684139/ARTICLE

APPENDIX B

Local Government Association
Question & Answer sheet for the Municipal Bonds Agency

What will the Agency be?
It will be a freestanding independent body owned by the local government sector that will raise money efficiently on the capital markets at regular intervals to on-lend to participating local authorities.

Who will be participating authorities?
They will be local authorities that have invested in the setting up of the Agency or have invested risk capital to capitalise the Agency and fund it through its early years of operations.

What is the purpose of the Agency?
It will offer a viable alternative source of capital funding to the Public Works Loans Board (PWLB). In addition it will be able to offer loans at better or at least equivalent rates to the PWLB and tailor packages to meet the particular needs of participating authorities. It will be collective in that it will balance the voices of smaller and larger authorities in the way the LGA does at present. It will free local authorities from Treasury control of interest rates.

Who would own it?
It will be owned by local authorities that invest in its establishment and those that invest in its capitalisation during its first ten years of operations. Those authorities will become shareholders in the Agency and therefore have a say in the way it is run.

What will happen to the risk capital invested by authorities in the Agency?
It is envisaged that it will be returned to authorities after 10 years of successful operations having earned interest at commercial rates. It is therefore a very real investment opportunity for participating authorities.

Who would run it?
The outline business case envisages a standalone Agency managing the issuing of bonds and on-lending to borrowers. However a review of the business case about to take place will examine alternative options of managing the process and make recommendations. Whatever option is adopted, its overall policy and direction will be steered by its shareholders

Does it have Ministerial support?
The Government's view is that it is for the local authority sector to determine collectively whether a local authority bond agency could be delivered on a sustainable and affordable footing. It is seen as consistent with the localism agenda that the autonomous local government sector considers whether it is able to deliver and sustain alternative financing models.

How long will it take to establish the Agency?

It is envisaged that the Agency could be ready to commence operations by the end of 2014, subject to the review of the business case, shortly to be undertaken, showing that it remains a viable and cost effective proposition.

Is additional legislation required to enable the Agency to be established?
No it can be established within the current legislative framework.

What impact will this proposal have on the Government's control of overall government borrowing?
Nothing in this proposal seeks to change existing arrangements. The proposals do not facilitate any additional borrowing over what is already permitted within the capital regulatory system. The existing arrangements with the Treasury retaining ultimate regulatory control are to be maintained and borrowing authorities will be required to operate within the current prudential code.

APPENDIX C

Lewisham letter of intent to the Local Government Association

Private & Confidential

Sir Steve Bullock
Mayor, London Borough of Lewisham
Lewisham Town Hall
Catford
London SE6 4RU

direct line 020 8314 6193
mayorsteve.bullock@lewisham.gov.uk

date 17/07/2014
our reference
your reference

Michael Lockwood
The Director
Local Capital Finance Company Limited
Local Government House
Smith Square
London
SW1P 3HZ

Dear Sirs

Re: Investment in Local Capital Finance Company Limited (the Company)

We refer to our discussions and set out below the basis on which we intend to invest in the Company's proposed fundraising.

We understand that the Company´s first round of fundraising shall be for at least £900,000, or such other amount as the Board of the Company may determine (the **First Fundraising**), and that the Company then proposes to complete additional round(s) of fundraising with a view to raising at least £8,000,000 or such other amount as the Board of Directors may determine, taking account of investments made in the First Fundraising (the **Second Fundraising**).

We hereby confirm that it is our firm intention to subscribe for 25,000 ordinary shares of one pence each in the capital of the Company in the First Fundraising for a consideration of £25,000 representing a price of £1 per ordinary share (the **Initial Subscription**).

The Initial Subscription is subject to final approval in accordance with our internal approval procedures. Following receipt of such approvals we intend to enter into a formal subscription agreement with the Company as soon as reasonably practicable in the form previously provided to us.

We also confirm that our indicative commitment to the Second Fundraising is £200,000, it being acknowledged that this indicative commitment will be subject, among other things, to completion of our internal investment approval process and agreement of satisfactory legal documentation.

This letter is not intended to be and shall not be legally binding.
Yours faithfully

Sir Steve Bullock
Mayor, London Borough of Lewisham