

Committee: Finance (For Decision) Policy & Resources (For Decision) Court of Common Council	Date: 21 May 2019 6 June 2019 Urgency
Subject: Borrowing - Update	Non-Public
Report of: Chamberlain	For Decision
Report author: Caroline Al-Beyerty and Kate Limna	

NOT FOR PUBLICATION

This report is exempt by virtue of the paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. Specifically, the report contains sensitive information which may be exempted under the Act, and as this cannot be presented to Members as a separate appendix this report needs to be considered in closed session. It is considered that information falling under the following paragraphs outweighs the public interest in disclosing information:

3)	Information relating to the financial or business affairs of any particular person or body (including the authority holding that information).
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Summary

This report updates Members on the borrowing arrangements that are being put into place to allow the City Corporation to finance its major projects programme. In particular it provides an update on the progress on Private Placement following the signing of the Facility Agreement and the drawing down of the bridging facility in March 2019.

The report also seeks budgetary provision of £778,250 to meet the ongoing costs of the bridging facility and the costs of arranging the Private Placement with such cost being met from City's Cash Reserves.

In addition, a Green and Sustainable Financing Framework for City's Cash (the Framework) is being drafted with a view to applying the funds raised through Private Placement to green and sustainable projects. At the time of writing the draft Framework is being considered by officers and the City's Advisors and an early draft is attached as an appendix to this report.

Recommendations

Members of the Finance Committee are asked to:

- Note the successful completion of the Bridging Loan Facility Agreement and the drawdown of £125M on 26 March 2019;
- Note the progress being made on Private Placement;
- Recommend to the Court of Common Council under Urgency that costs of £778,250 to cover the residual costs of the bridging facility and the costs of

Private Placement in 2019/20 and 2020/21 to be drawn down from City's Cash reserves;

- Note that a Green and Sustainable Financing Framework for City's Cash has been drafted with a view to applying the funds raised through Private Placement to green and sustainable projects; and
- Provide comments on the Green and Sustainable Financing Framework for City's Cash and delegate authority to the Town Clerk in consultation with the Chairman and Deputy Chairman of the Finance Committee to agree the final version.

Members of the Policy & Resources Committee are asked to:

- Provide comments on the Green and Sustainable Financing Framework for City's Cash and delegate authority to the Town Clerk in consultation with the Chairman and Deputy Chairman of the Policy & Resources Committee to agree the final version.

Main Report

Background

1. At your meeting on 13 December 2018, Members received a report on Major Project Financing. This report outlined the City Corporation's ambitious major projects programme over the next 10 years and looked at the financing options. The report also sought to amend the 2018/19 Treasury Management Strategy Statement to allow the City Corporation (City's Cash) to borrow before the end of this financial year. The amendment to the 2018/19 Treasury Management Strategy was approved by the Court of Common Council on 10 January 2019.
2. At that meeting, the Chamberlain advised that Rothschild (who are acting for the City as adviser on borrowing) had reviewed the City Corporation's immediate requirements for borrowing. They advised that the continued uncertainty surrounding Brexit was having an adverse effect on the markets and in this context the City Corporation should seek a short term bank loan facility (bridging facility) for between £100m-£125m to cover a period up to 31 December 2020 and to arrange a Private Placement of circa £250m early in the next financial year to take effect when the bridging facility ends or at some point before that date.
3. At your meeting in January 2019 Members were advised that the City was seeking a bridging facility as an unsecured loan which would be drawn down by 31 March 2019. In order to progress both the bridging facility and the Private Placement, the Finance Committee was asked to seek, under urgency, delegation from the Court of Common Council (the Court) that all powers, authorities and discretions of the Court be delegated to the Chamberlain as may be necessary for the authorisation of all acts, matters or documents in connection with the short term bridging facility and the proposed Private Placement of up to £250m debt securities.
4. In considering the proposed mechanisms by which the bridging facility and Private Placement would be progressed, the Committee agreed that appropriate Member oversight should be factored into the process with the Town Clerk, Chamberlain, and Chairman and Deputy Chairman of the Finance Committee being left to identify a suitable solution. This they duly did and the Court of Common Council agreed

the arrangements under Urgency. This was subsequently reported to the Court at their meeting on 25 April.

Current Position

5. The City duly entered into a Facility Agreement with Lloyds Bank Plc and Banco Santander SA London Branch and drew down £125M on 26 March 2019. This bridging loan is to be repaid by 31 December 2020 at the latest. Interest is payable monthly at LIBOR plus a stepped margin. Currently the margin is 25 basis points (0.25%) but this margin increases every 6 months rising up to 60 basis points (0.6%).
6. Officers in consultation with Rothschild and Lloyds and Santander (who are acting as Joint Placement Agents) are progressing with the detailed work for Private Placement. This includes the governance of the City Corporation, the potential use of the funds, details of City's Cash asset bases and the use of City's Cash. At the end of June (28th) there will be a presentation to potential investors at Mansion House. This will involve the Town Clerk, the Chamberlain, Deputy Chamberlain and the City's advisors "selling" the City to investors and answering questions. There will be two sessions, one in the morning and one in the afternoon where investors in America will take part. Following the presentation, investors will undertake further due diligence on the City and in the middle of July (15th) bids (pricing and terms) will come back.
7. On the day that the bids come back (which will be late afternoon to allow US investors to participate), Rothschilds and the Joint Placement Agents will assess the bids including any proposed terms to the Note Purchase Agreement and report to officers and the Chairman and Deputy Chairman later that evening/early the following morning and the pricing and terms will be fixed. This verbal agreement will be legally binding although documentation will not be signed until some weeks later once the investors have completed their due diligence – this may well include a visit to the City and a lunch/dinner.
8. The Court has delegated authority to the Chamberlain (subject to an agreed consultation mechanism with the Chairman and Deputy Chairman of the Finance Committee) to agree all matters pertaining to both the Bridging Facility and Private Placement.
9. For Private Placement an initial meeting was held on Tuesday 14 May with the Chairman and Deputy Chairman of your Committee, Alderman Nick Lyons and Michael Cassidy to update them on the current position. It is proposed to have a drop-in session which will be open to all Members of the Finance Committee to find out more about the Private Placement. Finally, there will be a further meeting with the Chairman, Deputy Chairman and Alderman Lyons to finalise the presentation and the draft Note Purchase Agreement.

Green and Sustainable Finance Framework

10. The City is committed to being a responsible business and we have asked our advisors to develop a Framework that would focus the use of the proceeds raised from Private Placement on green and sustainable projects but without tying the City to metrics for the next 25-50 years. To this end a Green and Sustainable Financing Framework for City's Cash (the Framework) has been drafted and is currently being reviewed by Corporation officers – an early draft is attached to this report. The City has also engaged DNV-GL (a leading classification and risk

management company who assess, measure and verify the sustainable impact of investments, financial products and companies) to assess the Framework and issue a statement on their opinion of eligibility of the Framework according to the Green Bond/Green Loan principles.

11. Having such a Framework in place will not impact on the costs of borrowing.
12. At this stage the Combined Markets project would be a suitable green and sustainable project and it is likely that other City's Cash funded projects such as the works at Wanstead Ponds could fall within the Framework. However, there is a risk, which we will seek to mitigate, that the Framework could inhibit the use of the funds for other projects if they do not fit within terms of the Framework. The City will be required to publish annual summary of the use of the proceeds (until they have all been deployed), which will need to be considered and approved by the Finance Committee and to then be published on the City's website.
13. The draft Framework will also go to the Policy & Resources Committee on 6 June and then to DNV-GL for assessment. If the Framework is agreed it will form part of the documentation pack that will go to potential investors.
14. Members are asked to provide comments on the draft Framework and to delegate authority to the Chairmen and Deputy Chairmen of the Finance Committee and the Policy & Resources Committee to agree the final version.

Budgetary Requirements

15. To date, the cost of arranging the bridging facility (excluding any interest payments) is £207,375 - this covers legal, advisor, Placement and the first quarter's agency fees. These costs have been met from your 2018/19 City's Cash Finance Contingency (£192,500) plus £40,000 from the Chamberlain's local risk budget. Until the bridging facility is repaid there will be ongoing costs which will total £124,375 if the loan is not repaid until 31 December 2020.
16. For the Private Placement your Committee has already agreed £100,000 for legal fees (both the City and for the investors) with this sum also being met from your 2018/19 City's Cash Finance Contingency pot.
17. The Chamberlain has previously advised that there will be further costs in arranging the Private Placement and these costs total some £679,000, covering the advisors fees, the joint agents fees, costs associated with green finance and a contingency to cover additional costs such as the use of an exchange database to share documents with investors and costs associated with any due diligence visit by investors.
18. The table below sets out the costs and Members will note that a budget of £803,375 is required for 2019/20 and 2020/21. However, for the Bridging Facility, the legal fees were below the original estimate and there is a saving of £25,125. This sum is included within the Contingency report on today's agenda for carry forward to 2019/20 and this reduces the required budget to £778,250.

		2019/20	2020/21	Total
BF	Agency Fees (Santander) ⁽ⁱ⁾	£17,500	£13,125	£30,625
BF	Arrangement Fees (Santander /Lloyds) ⁽ⁱ⁾	£93,750		£93,750
	Sub Total Bridging Facility	£111,250	£13,125	£124,375
PP	Advisors Fees (Rothschilds)	£200,000		£200,000
PP	Joint Placement Agents (Santander/ Lloyds)	£427,000		£427,000
PP	Green Finance Consultant (DNV-GL)	£22,000		£22,000
PP	Expenses/Hosting/Contingency	£30,000		£30,000
	Sub Total Private Placement	£679,000		£679,000
	Sub Total Bridging Facility & Private Placement	£790,250	£13,125	£803,375
	Less: Carry forward Contingency 2018/19			£25,125
	TOTAL	£790,250	£13,125	£778,250

(i) If the Bridging Facility is repaid early, not all of these costs will be incurred.

19. The fees may for both the Bridging Facility (if held until 31 December 2020) and the Private Placement represent approximately 3 basis points (0.03%) of the value of the loans.
20. These costs will need to be met from City's Cash Reserves and Members are asked to recommend to the Court of Common Council under Urgency that the ongoing costs of the Bridging Facility and the cost of arranging the Private Placement of £778,250 is met from City's Cash Reserves. Members should note that the City secured a reduction in the Joint Placement Agents equating to £25,000 and a reduction in fees for the Green Finance Consultant of £3,000.

Conclusion

21. Having successfully concluded the bridging facility arrangements in March 2019, the detailed work on Private Placement is progressing and the presentation to the market to potential investors will be at the end of June with bids (pricing and terms) due in the middle of July. The pricing and terms will be fixed verbally and this will be legally binding. In order to progress this and meet the costs of the Bridging Facility in 2019/20 and 2020/21 a budgetary provision of £778,250 is required and will need to be funded from City's Cash reserves.
22. In addition, a Green and Sustainable Framework for City's Cash is being developed with a view to applying the funds raised through Private Placement to green and sustainable projects. Whilst it is not yet finalised, Members are asked to provide comments and to delegate authority to the Chairmen and Deputy Chairman of the Finance Committee and Policy & Resources Committee. An invitation will be sent to the Drop-In session to all Members of the Finance Committee.

Appendices

Draft Green and Sustainable Financing Framework for City's Cash

Background Papers

Major Projects Financing – Finance Cttee (11/12/2018) and P&R Cttee (13/12/2018)
 Borrowing Update – Finance Cttee (22/01/2019) and Court of Common Council
 (Urgency – March 2019)

City's Cash – Bridging Facility: Arrangement Fees 2018/19 – Finance Cttee
(Urgency - March 2019)

Caroline Al-Beyerty
Deputy Chamberlain

T: 020 7332 1164

E: caroline.al-beyerty@cityoflondon.gov.uk

Kate Limna
Corporate Treasurer

020 7332 3952

Kate.Limna@cityoflondon.gov.uk