



*~ Debbie M  
FYI*  
**MUNICIPAL  
BONDS AGENCY**

**Strictly Private & Confidential**

SECTION 151 OFFICER

City of York Council

West Offices,

Station Rise,

York, YO1 6GA

30 April 2018

Dear Sirs

**UK Municipal Bonds Agency Plc (the "Company")**

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We are writing to inform you that the Annual General Meeting for the Company will take place on **23 May 2018 at 12:00pm at Beecham Room, Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ.**

Enclosed with this letter, you will find the notice for the meeting, the proxy form and accounts for the year ending 30 November 2017. If you are unable to attend the meeting, you may appoint a proxy using the proxy form. Alternatively, please dial in to the meeting by calling 0808-234-0363 (Toll-Free) or 0-20-35642755 (Caller Paid) and using the access code 7987673.

If you have any queries concerning the forthcoming AGM, please do not hesitate to contact any member of the Company Secretariat department on 0207 637 5216.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'J. Ke'.

**Cargil Management Services Limited**

**Company Secretary**

*Encs: Notice, Proxy Form and Accounts*



**UK MUNICIPAL BONDS AGENCY PLC (the "Company")**  
*(Registered in England and Wales with company number 09069106)*

**NOTICE OF 2018 ANNUAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** the 2018 Annual General Meeting of the above-named Company will be held at the Beecham Room, Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ on 23 May 2018 at 12:00pm, for the transaction of the following business:

**ORDINARY BUSINESS**

To consider, and if thought fit, to pass the following resolutions 1 to 4 as ordinary resolutions:

- 1** To receive the Directors' and Auditors' reports and the financial statements for the financial year ended 30 November 2017.
- 2** To re-appoint Deloitte LLP as the Company's auditors until the next Annual General Meeting and to authorise the Directors to fix their remuneration.
- 3** To re-appoint, as a director of the Company, Merrick Cockell, who retires in accordance with the board's policy to re-appoint a third of the board on a rotating basis at each Annual General Meeting and, being eligible, offers herself for re-election for a further term of three years.
- 4** To re-appoint, as a director of the Company, Mridul Tansley, who retires in accordance with the board's policy to re-appoint a third of the board on a rotating basis at each Annual General Meeting and, being eligible, offers himself for re-election for a further term of three years.

It is noted that Melanie McLaren, a director of the Company, is retiring by rotation in accordance with the Articles of Association. However, she is not offering herself for re-election. The board of directors would like to thank her for her service.

REGISTERED OFFICE  
27-28 Eastcastle Street  
London  
W1W 8DH

By Order of the Board  
Cargil Management Services Limited  
Company Secretary

Dated: 30 April 2018



## Notes to the AGM notice

1. Only those members entered on the Company's register of members not later than 12:00pm on 21<sup>st</sup> May 2018, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 2 days before the time fixed for the adjourned meeting (excluding non-business days) shall be entitled to attend and vote at the meeting.
2. A member of the Company entitled to attend and vote at this meeting is entitled to appoint a proxy (or proxies) to attend, speak and vote in his place. A proxy need not be a member of the Company. You can only appoint a proxy using the procedures set out in these notes and the notes to the Form of Proxy.
3. To be effective, the Form of Proxy must be deposited at the office of the Company's registrars, MSP Secretaries Limited, 27-28 Eastcastle Street, London W1W 8DH so as to be received not later than 12.00m on 21<sup>st</sup> May 2018, or if the meeting is adjourned, not later than 48 hours before the time fixed for the adjourned meeting.
4. To change your proxy instructions simply submit a new proxy appointment using the methods set out above and in the notes to the Form of Proxy. Note that the cut-off times for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy and would like to change the instructions, please contact the Company's registrars, MSP Secretaries Limited, 27-28 Eastcastle Street, London W1W 8DH or [msp@mspsecretaries.co.uk](mailto:mvp@mspsecretaries.co.uk)

5. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, MSP Secretaries Limited, 27-28 Eastcastle Street, London W1W 8DH. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, the revocation notice must be received by the Company's registrars, MSP Secretaries Limited, 27-28 Eastcastle Street, London W1W 8DH no later than 12:00pm on 21<sup>st</sup> May 2018.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified above, then your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

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**UK MUNICIPAL BONDS AGENCY PLC (the "Company")**  
**FORM OF PROXY**

I/We (name in full) .....of  
 (address).....

hereby appoint the Chairman of the Meeting or .....(delete as appropriate) as my/our proxy to attend, to speak and to vote in respect of the shares registered in my/our name(s) at the Annual General Meeting of UK Municipal Bonds Agency Plc to be held at 12:00pm on 23 May 2018 at the Beecham Room, Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ and at any adjournment thereof.

Ordinary Resolutions		FOR	AGAINST	ABSTAIN
1	To receive the Directors' and Auditors' reports and the financial statements for the financial year ended 30 November 2017.			
2	To re-appoint Deloitte LLP as the Company's auditors until the next Annual General Meeting and to authorise the Directors to fix their remuneration.			
3	To re-appoint, as a director of the Company, Merrick Cockell, who retires in accordance with the board's policy to re-appoint a third of the board on a rotating basis at each Annual General Meeting and, being eligible, offers herself for re-election for a further term of three years.			
4	To re-appoint, as a director of the Company, Mridul Tansley, who retires in accordance with the board's policy to re-appoint a third of the board on a rotating basis at each Annual General Meeting and, being eligible, offers himself for re-election for a further term of three years.			

Please indicate with an "X" how you wish your vote to be cast. If you do not indicate how you wish your Proxy to use your vote on any particular matter the Proxy will exercise discretion as to how to vote or whether to abstain from voting.

Signature(s) or Common Seal: .....

Dated: .....



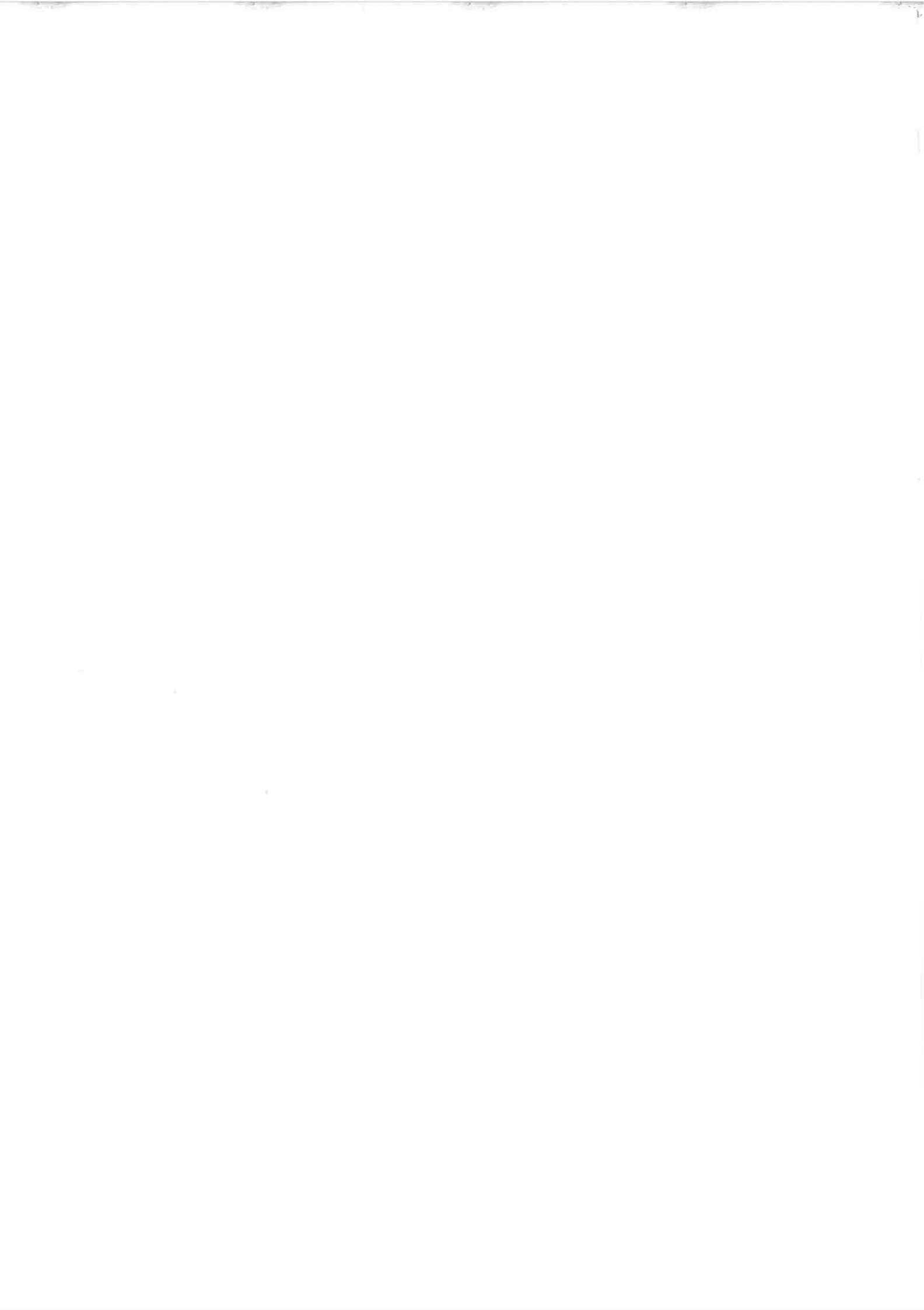
## Notes on completion:

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes.
2. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. To appoint as your proxy a person other than the Chairman of the meeting, insert their full name in the space provided. If you sign and return this proxy form with no name inserted in the space, the Chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman and give them the relevant instructions directly.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.
5. To direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
6. To appoint a proxy using the proxy form, the form must be:
  - completed and signed;
  - sent or delivered to: MSP Secretaries Limited, 27-28 Eastcastle Street, London W1W 8DH;
  - alternatively, the completed proxy form can be scanned and emailed to [msp@mspsecretaries.co.uk](mailto:msp@mspsecretaries.co.uk).
  - and received by MSP Secretaries Limited no later than 48 hours (excluding non-business days) prior to the Meeting.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

7. In the case of a member which is a company, this proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
8. Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form and received by the registrars no later than 21st May 2018.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.



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**UK Municipal Bonds Agency plc**  
**Company Information**

**DIRECTORS:**

Sir Merrick Cockell  
Michael Lockwood  
Adrian Bell  
Derrick Anderson  
Melanie McLaren  
Mridul Tansley  
Sir Stephen Houghton  
Brian Roberts

**SECRETARY:** Cargil Management Services Limited

**RISK, COMPLIANCE  
AND AUDIT COMMITTEE:**

Melanie McLaren (Chair)  
Michael Lockwood  
Mridul Tansley

**NOMINATIONS AND  
REMUNERATION  
COMMITTEE:**

Adrian Bell (Chair)  
Sir Stephen Houghton  
Derrick Anderson

**REGISTERED OFFICE:**

27-28 Eastcastle Street  
London  
W1W 8DH

**AUDITOR:**

Deloitte LLP  
London, UK

**BANKERS:**

HSBC plc,  
RMS Dept.  
Level 2, 62-67 Park Street,  
London SE1 9DZ

## UK Municipal Bonds Agency plc Strategic Report

### Strategic overview

The UK Municipal Bonds Agency plc, ('the Company'), was set up in June 2014 with the primary aim of helping to reduce local authority finance costs. Backed by 56 local authority shareholders and the Local Government Association, ('LGA'), the Company is an example of local government working together on a commercial basis to create an independent institution in order to deliver benefit for all.

### Business model

The purpose of the Company is to reduce local authority financing costs by issuing bonds in the capital markets, both public and private; by facilitating more efficient lending between councils; and by sourcing funding from 3rd party sources and on-lending to councils on a matched basis. These activities carry the potential for certain legal and financial risks which we will mitigate through the twin pillars of our business model:

- A joint and several guarantee by signatory local authorities of other signatories' borrowing; and
- Our proprietary credit process which will provide a data-driven and evidence based rationale for our borrowing metrics.

The Agency will require any local authority which wishes to borrow to sign a joint and several guarantee. Taken as a whole, UK local authorities have a relatively high credit rating and through the joint and several guarantee, the Company will ensure that the overall credit quality of its debt will match or exceed that. While the risk of default of any single borrowing authority is already relatively low, the joint and several guarantee ensures that even in this unlikely event, lenders can enjoy full confidence they will be repaid. For the first time, participating authorities will be able to leverage their combined creditworthiness to obtain better deals in the debt markets.

The joint and several guarantee is the cornerstone of the legal framework which the Company has developed to enable local authorities to enter into borrowing arrangements with the Company. Described in a package of documentation known as the Framework Agreement, it sets out in detail the rights and obligations of both borrowers from the Company and of the Company itself with respect to those borrowers. It details the controls the Company has in place to ensure that risks associated with the joint and several guarantees are mitigated to the extent possible, whilst continuing to maintain the Agency's underlying value proposition. The Framework Agreement is the product of detailed negotiations with those councils which took a lead on behalf of the local government sector. Specifically, the document package for councils includes: The Framework Agreement, legal advice thereon, Queen's Counsel opinion on both the vires of the guarantee and steps which councils should take to ensure compliance with the Wednesbury principle, in addition to further explanatory guides from the Company itself. As such, it addresses in full the practical, legal and public policy issues which this novel development potentially gives rise to.

Credit quality lies at the heart of all debt financing; moreover, the provision by local authority borrowers of a joint and several guarantee makes it a top priority for the Company to ensure that any loans advanced meet a demanding credit standard. In conjunction with local authority stakeholders, the Agency has developed a proprietary credit process, largely based on those used by leading ratings agencies. This provides us with the basis for an independent, objective assessment of applicant credit quality based on proven methodologies. The credit process is rigorous, but smart, with much of the input extracted from publicly available information. Applying these credit models, the Company would intend to duly extend credit to local authorities whom it believes could achieve an individual idiosyncratic single A rating.

The high quality of potential borrowers from the Agency is reflected in the strong confidential rating which the Company enjoys. This high quality rating is further driven by the Company's strong relationships across the sector, including with CIPFA and the LGA.

## **UK Municipal Bonds Agency plc Strategic Report**

### **Business model (continued)**

In anticipation of the Company completing its inaugural issue in the near future, the Company is working on the establishment of a Local Authority Advisory Board, ('Advisory Board'). The purpose of the Advisory Board will be to advise the Board of the Company on trends within the sector, the robustness of its processes and any specific concerns as they may relate to the Company and its activities.

The Company operates a heavily outsourced, low cost business model. Cognisant of the delay in reaching the volumes anticipated in the original business plan, the Company's Board has taken steps to further reduce the cost base to allow time to achieve the required volumes of debt to break even.

### **Fair review of business**

During the year, the Company's focus has been on reducing its cost base and continuing to work towards its initial transaction. Accordingly, the expenses of the Company during the year include 'one-off' costs including redundancy and fixed asset write downs. In addition, the Company incurred legal and other costs in relation to the initial transaction.

### **People and processes**

The company employed a maximum of 5 staff during the year, operating a business model which is heavily reliant on outsourcing. Following a review of the business and given that much of the set up work required to establish the Company's operating platform was complete, the Company was able to reduce the volume of staffing required.

### **Activities to date**

The primary focus of the Company has been delivering its first debt financing. To this end, the Company has engaged with a number of authorities with respect to their debt finance requirements, performed credit assessments and supported authorities in their due diligence process.

As part of this process, the Agency has sought and received a strong confidential rating and, as noted above, now has its Framework Agreement approved by 23 councils, who can now avail of borrowing from the Agency.

The Company is working with a small cohort of authorities in order to deliver a proof of concept initial deal. It is anticipated this deal will shortly be marketed to investors.

### **Principal risks and uncertainties**

The principal risks and uncertainties are those the Company has in common with any start-up entity.

Nevertheless, there are certain unique risks.

- The Company faces competition from the Public Works Loan Board, which enables any authority to draw down funds, at any maturity between 1 and 50 years, within 48 hours. The due diligence, required by the PWLB, is limited to confirmation of compliance with CIPFA's Prudential Code
- Whereas local authorities are generally supportive of the Company, in the early stages, it has proved challenging to coordinate the required number of authorities to support a proof of concept bond issuance. This, in turn, increases the risk that the company will not attract sufficient borrowers to achieve breakeven transactions before the Company's capital is depleted.
- As the Company has not yet completed its initial transaction as a proof of concept for the sector, it is not yet certain that the Company will be able to price its debt competitively
- The Company relies on a small executive team. However, the Board has mitigated the inherent risk through strengthening appropriate oversight and controls and through taking steps to gain additional support in the event of any departures.

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## **UK Municipal Bonds Agency plc**

### **Strategic Report**

#### **Future developments**

The Company anticipates completing its initial financing transaction in the near future. Subsequently, the focus of the Company will be to market the Company's activities within the local authority sector and build its volume of lending, in a manner consistent with its high credit standards. In this, the Company would note the continued demand from local authorities for the need for funding to invest in local services, economic development, housing and infrastructure.

#### **Key Performance Indicators**

Subsequent to the initial debt issuance the Company will develop a set of Key Performance Indicators.

#### **Events after the reporting period**

Subsequent to the reporting date, the Company has continued to work on measures to further reduce the cost base of the Company and has sought formal ongoing support from the LGA. Additionally, negotiations commenced relating to the transfer of the lease agreement after the reporting period, see note 17.

## **UK Municipal Bonds Agency plc Directors' Report**

### **General Information**

The Directors present their report with the financial statements of the Company for the year ended 30 November 2017.

The Company's purpose is to become a municipal bond agency, raising money on the capital markets and from other sources and then lending this to UK local authorities to fund capital expenditure and for refinancing purposes. The Company aims to inject diversity and competition into the local government finance market by offering cheaper and more efficient financing.

### **Viability of the business**

The Company is preparing for its initial debt offering and related financing to local authorities. Whereas the outcome of any financing transaction will be dependent upon market conditions at the time, the Directors have a reasonable expectation that the company will be able to provide financing to local authorities below the PWLB rate. The Directors anticipate that this 'proof of concept' will unlock additional local authority borrowing demand, and have received a number of assurances from local authorities to that effect.

Nevertheless, the Company has taken longer to reach this point, than originally anticipated. Accordingly, the Board implemented a series of measures to reduce the cost base during the year.

### **Going concern**

The LGA, having been instrumental in the establishment of the company and as its largest shareholder, with retained powers, has provided the Board with a Letter of Comfort confirming it will stand behind the agency.

The LGA has offered its ongoing support in promoting the Company across the local authority sector. Such support will encompass public relations, promotions and other administrative support.

Additionally, they confirmed they will ensure the Company has adequate support to ensure its business continuity, in relation to commitments and non-financing liabilities, going forward. As noted in the Strategic Report, financing liabilities will benefit from a joint and several guarantees of the Company's borrowers.

The Board welcomes this support, which is provided for a period of 10 years from 18th January, 2018, and has no reason to believe that it might be withdrawn. Accordingly, the Board view the company as a going concern.

For additional information relating to this matter please refer to note 3 to the accounts on page 15.

### **Dividends**

The Directors do not recommend paying a dividend.

### **Directors**

The following directors held office throughout the period and to the date of approval of this report (except where otherwise shown):

Sir Merrick Cockell

Michael Lockwood

Adrian Bell

Derrick Anderson

Melanie McLaren

Mridul Tansley

Sir Stephen Houghton

Brian Roberts (appointed 21 March 2017)

The Board established a Risk, Compliance and Audit Committee and a Nominations and Remuneration Committee to deal with certain matters delegated to them by the board.

## UK Municipal Bonds Agency plc Directors' Report

The Risk, Compliance and Audit Committee comprises Melanie McLaren as Chair, Michael Lockwood and Mridul Tansley. Its terms of reference include advising the board on risk management, regulation and compliance, internal controls, financial reporting, internal and external audit.

The Nominations and Remuneration Committee comprises Adrian Bell as Chair, Sir Stephen Houghton and Derrick Anderson. Its terms of reference include advising the board on the size and composition of the board, succession planning for the Board, the nomination of individuals to the Board and the remuneration of senior executive. This also includes providing an executive oversight of executive remuneration and board and other senior appointments.

### Directors' Indemnities

The Company has made third party indemnity provisions of £5m for the benefit of its directors which were made during the year and remain in force at the date of this report.

### Auditor

The Directors at the date of approval of this report confirm that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP were appointed auditor to the Company and in accordance with Section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put forward at the next General Meeting.

### Strategic Report

The directors have set out information relating to the principal risks and uncertainties of the business, future developments and subsequent events in the Strategic Report.

In accordance with section 414G(11) of the Companies Act 2006 the company has chosen to include a Strategic Report as required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Approved by the Board and signed on its behalf by:



Director

Date: 18th January 2018



Director

Date: 18th January 2018

## **UK Municipal Bonds Agency plc Directors' responsibilities statement**

The Directors are responsible for preparing the Strategic Report, Director's Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report to the members of UK Municipal Bonds Agency plc**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 November 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of UK Municipal Bonds Agency Plc (the 'company') which comprise:

- the statement of total comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Material uncertainty related to going concern**

We draw attention to note 3 in the financial statements, which indicates that the Company is reliant on support from the Local Government Association for its continued operations and is currently anticipating marketing its initial debt offering to investors shortly. As stated in note 3, these events or conditions, along with the other matters as set forth in note 3 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

## **Independent auditor's report to the members of UK Municipal Bonds Agency plc**

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

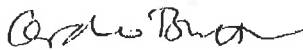
## Independent auditor's report to the members of UK Municipal Bonds Agency plc

### Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.



Caroline Britton (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK  
18<sup>th</sup> January 2018

**UK Municipal Bonds Agency plc**  
**Statement of Total Comprehensive Income**

For the year ended 30 November 2017

	Note	Year ended 30 November 2017 £'000	Year ended 30 November 2016 £'000
Administrative expenses		(1,151)	(1,594)
<b>Loss before tax</b>	<b>5</b>	<b>(1,151)</b>	<b>(1,594)</b>
Tax	<b>8</b>	-	-
<b>Loss for the year attributable to the Owners of the Company</b>		<b>(1,151)</b>	<b>(1,594)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year attributable to the Owners of the Company</b>		<b>(1,151)</b>	<b>(1,594)</b>

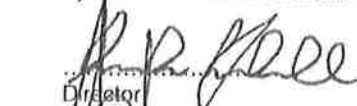
All results are from continuing operations.


# **UK Municipal Bonds Agency plc** **Statement of Financial Position**

At 30 November 2017

	Note	2017 £'000	2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	2	19
<b>Current assets</b>			
Trade and other receivables	10	78	94
Cash and cash equivalents		925	2,026
<b>Total current assets</b>		<u>1,003</u>	<u>2,120</u>
<b>Total assets</b>		<u>1,005</u>	<u>2,139</u>
<b>Current liabilities</b>			
Trade and other payables	11	210	193
<b>Net current assets</b>		<u>793</u>	<u>1,927</u>
<b>Net assets</b>		<u>795</u>	<u>1,946</u>
<b>Equity</b>			
Share capital	13	74	74
Retained earnings		721	1,872
<b>Equity attributable to owners of the Company</b>		<u>795</u>	<u>1,946</u>

The financial statements of UK Municipal Bonds Agency plc (Registration No. – 09069106) were approved by the board of Directors and authorised for issue on 14 Jan 2018. They were signed on its behalf by:

  
 Director

  
 Director

# **UK Municipal Bonds Agency plc** **Statement of Changes In Equity**

For the year ended 30 November 2017

	Share Capital £'000	Retained Earnings £'000	Total £'000
<b>Balance at 1 December 2015</b>	74	3,466	3,540
Total comprehensive loss for year	-	(1,594)	(1,594)
<b>Balance at 30 November 2016</b>	<u>74</u>	<u>1,872</u>	<u>1,946</u>
Total comprehensive loss for year	-	(1,151)	(1,151)
<b>Balance at 30 November 2017</b>	<u>74</u>	<u>721</u>	<u>795</u>

**UK Municipal Bonds Agency plc**  
**Statement of Cash Flows**

For the year ended 30 November 2017

	Note	Year ended 30 November 2017 £'000	Year ended 30 November 2016 £'000
<b>Net cash used in operating activities</b>	14	(1,101)	(1,883)
<b>Investing activities</b>			
Purchase of property, plant and equipment		-	(1)
<b>Net cash used in investing activities</b>		-	(1)
<b>Net decrease in cash and cash equivalents</b>		(1,101)	(1,884)
Cash and cash equivalents at beginning of year		2,026	3,910
<b>Cash and cash equivalents at end of year</b>		925	2,026

## **UK Municipal Bonds Agency plc**

### **Notes to the financial statements**

For the year ended 30 November 2017

#### **1. General Information**

UK Municipal Bonds Agency plc (Registration No. – 09069106) is a public Company limited by shares and is registered, domiciled and incorporated in England and Wales. The address of the registered office is 5-8 The Sanctuary, London SW1P 3JS. The nature of the Company's operations and its principal activities are set out in the Directors' report on pages 5 to 6.

#### **2. Adoption of new and revised Standards**

At the date of approval of these financial statements, there have been no Standards and Interpretations that have become effective during the year that have a material impact on the Company.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- *IFRS 9 Financial Instruments* (effective for periods commencing 1 January 2018)
- *IFRS 15: Revenue from Contracts with Customers* (effective for periods commencing 1 January 2018)
- *IFRS 16 Leases* (effective for periods commencing 1 January 2019)
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)* (effective for annual periods commencing on or after 1 January 2017)
- *Disclosure Initiative (Amendments to IAS 7)* (effective for annual periods commencing on or after 1 January 2017).

The Board will consider the impact of the standards and interpretations listed above and whether they will have a material impact on the financial statements of the company in future periods. The Company had no revenue, so IFRS 15 is not likely to impact financial statements. IFRS 16 will result in recognition of right of use assets and lease liabilities.

#### **3. Significant accounting policies**

##### **Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements have been prepared on a going concern and historical cost basis. Monetary amounts in these financial statements are rounded to the nearest whole £1,000 except where otherwise indicated. The principal accounting policies adopted are set out below.

## UK Municipal Bonds Agency Plc

### Notes to the financial statements

#### 3. Significant accounting policies (continued)

##### Going concern

The Company was founded in 2014 with £500,000 of capital from the Local Government Association with the objective of becoming the first municipal bond agency in the UK, injecting diversity and competition into the local government finance market by offering cheaper and more efficient financing.

During 2014 and 2015 a further £5,545,000 was raised through issues of share capital to a consortium of 56 local authorities. Since this time the activities of the business to date, as described in the directors' report, have been preparing to deliver its first debt financing. This process has included engagement with a number of authorities with respect to their debt financing requirements, performance of credit assessments, due diligence and the drawing up of a borrowing Framework Agreement for participating authorities. To date, 23 authorities have signed the Framework Agreement allowing them to borrow via the Company.

As a result of the time required to prepare for the initial 'proof of concept' debt offering no revenue has been generated since incorporation. However significant expenses have been incurred to date, the majority of which have related to legal and professional fees and staff costs. To this end, during the first quarter of 2017, the Company enacted a series of cost cutting measures which significantly reduced its cost base. Additionally, now the legal framework for the initial and subsequent debt offerings is in place, a lower level of expense will be required for legal and professional costs.

The Company is currently anticipating marketing its initial debt offering to investors shortly and, subject to the principal risks and uncertainties described in the directors' report, expects to be able to generate positive cash flows from subsequent offerings on its own account in the medium term. Until this point the Company will be reliant on external support for its continued operations as described below.

The Local Government Association, and local authority shareholders, have generally been supportive of the Company and, as the largest and founding shareholder, the Local Government Association has issued a Letter of Comfort to the Board. In this letter they have set out an offer of ongoing financial and operational support, with the exception of financing liabilities which will benefit from a joint and several guarantee as described in the strategic report, for a period of 10 years with the aim of ensuring the business continuity of the Company.

As with any company placing reliance on other entities for financial support, the Directors acknowledge that there can be no certainty this support will continue. As such, considering the current internal funds available to the business, there is a material uncertainty which may cast significant doubt as to the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, at the date of approval of these financial statements, the Board welcomes this support and has no reason to believe it might be withdrawn. Accordingly, the Board view the company as a going concern.

##### Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use. Depreciation is calculated to write down the cost of property, plant and equipment to its residual values on a straight line basis over the estimated useful economic life as follows:

Furniture, fixtures and office equipment	-	Straight- line over 3 years
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## **UK Municipal Bonds Agency plc**

### **Notes to the financial statements**

#### **3. Significant accounting policies (continued)**

##### **Financial Instruments**

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the Instrument.

Other receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables.

Financial assets are initially measured at fair value, being the transaction price and are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and demand deposits, and are subject to an insignificant risk of changes in value.

##### *Financial liabilities and equity instruments*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. All of the Company's financial liabilities are classified as "other financial liabilities" and measured at amortised cost.

##### *Trade payables*

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### *Equity instruments*

Financial instruments classified as equity instruments are recorded at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments.

##### **Capital management**

The Company manages its capital to ensure it will be able to continue as a going concern. The capital structure of the Company consists of equity, comprising issued share capital and retained earnings as disclosed in Statement of Changes in Equity.

The Company is not a subject to any externally imposed capital requirements.

##### **Current and deferred tax**

The tax expense comprises current and deferred tax. Current tax is based on taxable profit for the year. Taxable profits or losses differ from profit as reported in the Statement of Total Comprehensive Income because they exclude items of income or expense that are taxable or deductible in other years and they further exclude items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

## UK Municipal Bonds Agency plc

### Notes to the financial statements

#### 3. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

##### Leasing

Operating lease annual rentals are charged to profit and loss on a straight-line basis over the lease term with inflation adjustments where appropriate.

##### Critical estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The judgements, estimates and associated assumptions are evaluated based on various factors, including expectations of future events, which are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Some key assumptions are discussed below:

##### Depreciation

The Company exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives.

##### Classification of leases as operating leases

In categorising a lease as an operating lease, the directors have made judgements and ascertained that no significant risks and rewards of ownership have transferred to the Company as lessee. Given this, the lease has been classified as an operating lease.

#### 4. Revenue

The Company has no revenue from operations as it has not yet commenced lending activities.

#### 5. Loss before tax

Loss has been arrived at after charging:

	Year ended 30 November 2017 £'000	Year ended 30 November 2016 £'000
Operating lease payment – land and buildings	64	64
Depreciation of property, plant and equipment	13	13
Impairment of property, plant and equipment	4	-
Foreign exchange differences	1	4

**UK Municipal Bonds Agency plc**  
**Notes to the financial statements**

**6. Auditor's remuneration**

Fees payable to Deloitte LLP for the audit of the Company's accounts are:

	Year ended 30 November 2017 £'000	Year ended 30 November 2016 £'000
Audit of statutory financial statements	20	25

**7. Staff costs**

The average monthly number of employees (including Directors) during the year was:

	Year ended 30 November 2017 Number	Year ended 30 November 2016 Number
Management and administration	9	12

Their aggregate remuneration comprised:

	Year ended 30 November 2017 £'000	Year ended 30 November 2016 £'000
Wages and salaries	509	828
Social security costs	62	103
	571	931

**Key management remuneration and Directors' emoluments:**

	Year ended 30 November 2017 £'000	Year ended 30 November 2016 £'000
<b>Directors' emoluments:</b>		
Wages and salaries	135	244
Social security costs	14	26
	149	270

Key management is defined as senior management with the authority and responsibility for planning, directing and controlling the Company's activities, including directors and non-executive directors of the Company. Key management compensation was £429,355 (£710,763).

**UK Municipal Bonds Agency plc**  
**Notes to the financial statements**

**8. Taxation**

No provision has been made for current or deferred tax.

Factors affecting the tax charge for the year:

The tax assessed for the year is lower than the effective standard rate of corporation tax in the UK 20% (2016: 20%). The differences are explained below:

	Year ended 30 November 2017 £'000	Year ended 30 November 2016 £'000
Loss on ordinary activities before tax	(1,151)	(1,594)
Loss on ordinary activities multiplied by the effective standard rate of corporation tax in the UK of 19.33% (2016: 20%).	(222)	(319)
Effects of:		
Expenses not deductible for tax purposes	-	1
Re-measurement of deferred tax – change in UK tax rate	27	23
Deferred tax not recognised	195	295
Total tax for the year	-	-

The company has the following deferred tax assets not recognised in these financial statements as recovery is not sufficiently certain, calculated at a corporation tax rate of 17% (2016:17%) as follows:

	2017 £'000	2016 £'000
Tax losses carried forward	865	672
Fixed asset timing differences	-	(3)
	865	669

The deferred tax asset is recoverable against future profits from the same trade of the same type.

**UK Municipal Bonds Agency plc**  
**Notes to the financial statements**

**9. Property, plant and equipment**

	Furniture, fixtures and office equipment £'000	Total £'000
<b>Cost:</b>		
At 1 December 2015	38	38
Additions	1	1
	<u>39</u>	<u>39</u>
At 30 November 2016 and 30 November 2017		
	<u>39</u>	<u>39</u>
<b>Depreciation:</b>		
At 1 December 2015	7	7
Depreciation charged in the year	13	13
	<u>20</u>	<u>20</u>
At 30 November 2016		
	<u>20</u>	<u>20</u>
Depreciation charged in the year	13	13
Impairment	4	4
	<u>37</u>	<u>37</u>
At 30 November 2017		
	<u>37</u>	<u>37</u>
<b>Net book value:</b>		
At 30 November 2016	19	19
	<u>19</u>	<u>19</u>
At 30 November 2017	2	2
	<u>2</u>	<u>2</u>

The Company is taking steps to move premises and as such there is no further use of furniture and fixtures and so impairment is recorded at the year end.

**UK Municipal Bonds Agency plc**  
**Notes to the financial statements**

**10. Trade and other receivables**

	2017 £'000	2016 £'000
Other debtors	32	32
Prepayments	46	62
	<u>78</u>	<u>94</u>

The fair value of other debtors is the same as the book value.

**11. Trade and other payables**

	2017 £'000	2016 £'000
Trade payables	6	17
Other tax and social security	12	36
Accruals	192	140
	<u>210</u>	<u>193</u>

**12. Financial Instruments**

The carrying amounts of the Company's financial instruments at the end of year were:

	2017 £'000	2016 £'000
Financial assets measured at amortised cost		
Other debtors	32	32
Cash and cash equivalents	925	2,026
	<u>957</u>	<u>2,058</u>
Financial liabilities measured at amortised cost		
Trade payables	6	17
Accruals	192	140
	<u>198</u>	<u>157</u>

None of the financial assets are past due or impaired as at the reporting date.

The financial liabilities all mature within 12 months and carry no interest.

## UK Municipal Bonds Agency plc

### Notes to the financial statements

#### 12. Financial Instruments (continued)

##### Financial risk management

The Directors consider that the Company has the following credit and liquidity risks attached to the Financial Instruments. The Directors are of the view that at this stage these risks are minimal.

##### *Credit risk*

The Company's principal financial assets are cash and cash equivalents. The Company's credit risk is primarily attributable to its cash and cash equivalents.

The company also formalised a Credit Risk Policy within its Risk and Controls Framework to manage loans that the company will make to local authorities in the future.

The Policy puts in place a strict system of credit assessments, eligibility requirements and concentration limits to reduce the risk that one of the company's borrowers is unable to service and repay its loans to the company.

##### *Liquidity risk*

To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Company uses common equity. All equity & reserve are held as cash in bank to provide the maximum availability for the company's operational requirements during the development phase.

#### 13. Share capital

The share capital in issue during the year was as follows:

	2017		2016	
	No.	Share Capital £'000	No.	Share Capital £'000
LGA shares of £0.01 each	750,000	8	750,000	8
B shares of £0.01 each	6,635,000	66	6,635,000	66
	<u>7,385,000</u>	<u>74</u>	<u>7,385,000</u>	<u>74</u>

All shares are authorised and fully paid.

Each shareholder's right to vote is capped at a maximum of 5% of total voting rights. All shareholders also have full rights to dividends and capital distributions but they are not entitled to any rights of redemption.

The LGA shareholder is entitled to veto any amendment to the articles or appointment of a director.

The company maintains sufficient share capital in order to provide the necessary cash and other funding requirements for the day to day running of the business.

**UK Municipal Bonds Agency plc**  
**Notes to the financial statements**

**14. Operating cash flow reconciliation**

	Year ended 30 November 2017 £'000	Year ended 30 November 2016 £'000
Loss for the year	(1,151)	(1,594)
Impairment of tangible asset	4	-
Depreciation	13	13
	<u>(1,134)</u>	<u>(1,581)</u>
Decrease/(increase) in receivables	16	(30)
Increase/(decrease) in payables	17	(272)
	<u>(1,101)</u>	<u>(1,883)</u>
	2017 £'000	2016 £'000
Cash and cash equivalents represent:		
Cash at bank	<u>925</u>	<u>2,026</u>

**15. Commitments**

The company entered into a 5 year non-cancellable operating lease during the financial period ended 30 November 2015.

The future minimum lease payments are as follows:

	Land and Buildings 2017 £'000	Land and Buildings 2016 £'000
No later than 1 year	64	64
Between 1 and 5 years	90	154
	<u>154</u>	<u>218</u>

The lease agreement is planned to be transferred after the reporting period, see note 17.

**16. Ultimate controlling party**

The Directors do not consider there to be an ultimate controlling party.

**17. Events after the reporting period**

Subsequent to the reporting date, the Company has continued to work on measures to further reduce the cost base of the Company and has sought formal ongoing support from the LGA.

Post year end, the company entered into negotiations to transfer the lease referred to in note 15 to the accounts. The estimated financial impact of this will be a reduction of expenses of approximately £64,000 per year.