

## Report to CABINET

# PFI Refinancing

### **Portfolio Holder:**

Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and HR

**Officer Contact:** Anne Ryans, Director of Finance

**Report Author:** Andrew Moran, Assistant Director of Finance  
**Ext.** 4467

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### **Reason for Decision**

To enable the Council to pursue a PFI Refinancing opportunity in accordance with the budget reduction proposal entitled 'Prepayments & Refinancing of Outstanding Long Term Liabilities' (Ref CCS-COM-044) approved by Council on 14 December 2016.

### **Executive Summary**

On 14 December 2016, Council approved a range of budget reduction proposals to contribute to the delivery of a balanced revenue budget for 2017/18. One approved proposal, entitled 'Prepayments & Refinancing of Outstanding Long Term Liabilities' (Ref CCS-COM-044) envisaged the delivery of savings by seeking out refinancing opportunities across the Council's portfolio of seven PFI projects. The Council subsequently reviewed its portfolio of projects to highlight potential gains from refinancing.

The review concluded that potential gains from PFI debt refinancing may be available. A proposal for PFI refinancing has been developed and further details are set out in Part B of this report.

Arrangements are now being made to assemble the appropriate legal agreements and financial model in order to deliver the proposed debt refinancing.

### **Recommendations**

In accordance with budget reduction proposal CCS-COM-044 (Prepayments & Refinancing of Outstanding Long Term Liabilities) approved by Council on 14 December 2016, it is recommended that Cabinet:

- Note the progress achieved to date with regard to identifying PFI Refinancing opportunities.

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- Authorise the Director of Finance and Director of Legal Services to finalise the detailed arrangements in respect of the proposal set out in Part B of this report, and to progress the financial and legal work associated with it.
  - Agrees that the matter be exempt from call in as the decision is time limited and there is a risk the refinancing opportunity would be lost.
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## **PFI Refinancing**

### **1. Background**

- 1.1. On 14 December 2016, Council approved a range of budget reduction proposals to contribute to the delivery of a balanced revenue budget for 2017/18. One approved proposal, titled 'Prepayments & Refinancing of Outstanding Long Term Liabilities' (Ref CCS-COM-044) envisaged the delivery of savings by seeking out refinancing opportunities across the Council's portfolio of seven PFI projects. The Council subsequently reviewed its portfolio of projects to highlight potential gains from refinancing.

#### PFI Refinancing - Explanation

- 1.2. Most PFI contracts contain standard provisions whereby if the debt used to finance the initial construction phase of a project can be refinanced at a lower cost, then the benefit (after transaction costs, advisory fees and disbursements) is split equally between the Council and the PFI Contractor. In these arrangements, the debt to be refinanced is often referred to as Senior Debt and the providers of it are known as Senior Funders.
- 1.3. The interest rate charged to the PFI Contractor broadly comprises two elements:
- The underlying interest (swap) rate;
  - A profit margin charged by the Senior Funder.
- 1.4. Refinancing opportunities generally exist where the market rate for the profit margin element falls below that currently charged by the incumbent Senior Funder. However, any refinancing exercise would attract significant early redemption penalties as well as legal and advisory fees. The reduction in margins must therefore be significant enough to offset these costs.
- 1.5. Reductions in the underlying swap rate do not yield any refinancing gains because the benefit of lower interest rates is offset by early redemption costs. Early redemption costs wholly eliminate any saving associated with reductions in the swap rate.

#### Review of Potential for Refinancing Gains

- 1.6. The initial review of refinancing potential quickly ruled out any projects that were signed prior to the global financial crisis of 2008 (four schemes in total). Refinancing such schemes will not at present deliver financial savings as the original funding terms are more competitive than those available in the current market.
- 1.7. Also ruled out for refinancing were other projects where it is either not possible to secure more competitive funding terms or where it would be uneconomic to pursue due to transaction costs outweighing any saving on funding costs.
- 1.8. More positively, the review did identify a refinancing opportunity the details of which are set out in Part B of this report. The position will continue to be monitored in case market conditions and circumstances change giving rise to further refinancing opportunities.

### **2. Current Position**

- 2.1. The PFI Contractor has now sourced improved funding terms and advisers have been appointed to finalise the arrangements. It is now necessary to assemble the appropriate legal agreements and financial model in order to deliver the proposed debt refinancing.
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Further details of the proposed refinancing arrangement are set out in Part B of this report.

### 3. **Options/Alternatives**

3.1. There are two options:

- Option 1 – Proceed with the proposed refinancing;
- Option 2 – Do not proceed with the proposed refinancing.

### 4. **Preferred Option**

4.1. Option 1 is the preferred option as it will give rise to a financial benefit for the Council.

### 5. **Consultation**

5.1. The approved savings proposal 'Prepayments & Refinancing of Outstanding Long Term Liabilities' which prompted the proposed refinancing passed through the Council's standard budget consultation process which includes a period of public consultation as well as consideration by the Overview and Scrutiny Performance and Value for Money Select Committee.

### 6. **Financial Implications**

6.1. Proceeding with the proposed refinancing will give rise to a financial benefit for the Council. Financial and legal advisers have been engaged to support the Council in its efforts to pursue refinancing opportunities. (Andrew Moran, Assistant Director of Finance)

### 7. **Legal Services Comments**

7.1. The report author has confirmed that the Council's Financial Procedure Rules have been complied with. The Council has external legal and financial advice in place to support this project. The Council has the power to make this decision in the interests of good financial management. (Rebecca Boyle, Legal Services)

### 8. **Co-operative Agenda**

8.1. The pursuit of PFI refinancing opportunities supports the Council's co-operative agenda by generating resources that can be utilised to support the aims, objectives and co-operative ethos of the Council.

### 9. **Human Resources Comments**

9.1. There are no Human Resources implications.

### 10. **Risk Assessments**

10.1. The risks and any associated mitigations are included in Part B of this report.

### 11. **IT Implications**

11.1. There are no IT implications.

### 12. **Property Implications**

12.1. There are no property implications.

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13. **Procurement Implications**

13.1. There are no procurement implications.

14. **Environmental and Health & Safety Implications**

14.1. There are no Environmental and Health & Safety implications.

15. **Equality, community cohesion and crime implications**

15.1. There are no equality, community cohesion and crime implications.

16. **Equality Impact Assessment Completed?**

16.1. No

17. **Key Decision**

17.1. No

18. **Key Decision Reference**

18.1. N/A.

19. **Background Papers**

19.1. The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Report entitled 'Medium Term Financial Strategy 2017/18 to 2020/21 – Administration Budget Proposals' considered by Council on 14 December 2016. This report considered and approved budget reduction proposal CCS-COM-044 (Prepayments & Refinancing of Outstanding Long Term Liabilities).

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20. **Appendices**

20.1. None.

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