



EXECUTIVE BOARD DECISION

REPORT OF:	Executive Member for Resources Executive Member for Schools and Education
LEAD OFFICERS:	Director of Finance and IT Director of Children's Services
DATE:	13 th July 2017

PORTFOLIO/S AFFECTED:	Resources	Schools and Education
WARD/S AFFECTED:	All	
KEY DECISION:	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	

SUBJECT: Refinancing of the Building Schools for the Future (BSF) Private Finance Initiative (PFI) contract

1. EXECUTIVE SUMMARY

The report presents information for the Executive Board to consider regarding the option to refinance the Council's PFI senior debt in its two PFI schemes which achieved Financial Close in 2010.

2. RECOMMENDATIONS

That the Executive Board:

- (1) Note the option to refinance the Council's PFI senior debt
- (2) Note the potential to deliver a financial benefit from a refinancing deal
- (3) Note the appointment of financial advisers to act as advisers to the PFI Project Companies
- (4) Delegate approval to the Director of Finance and IT, in consultation with the Director of Children's Services, the Executive Member for Resources and the Executive Member for Schools and Education to appoint financial & legal advisers to the Council for the refinancing of the PFI debt, as required
- (5) Delegate approval to the Director of Finance & IT, in consultation with the Director of Children's Services, the Executive Member for Resources and the Executive Member for Schools and Education to enter into any subsequent re-financing arrangements if it is deemed that such an exercise will deliver financial benefit to the Council.

3. BACKGROUND

Building Schools for the Future Programme (BSF)

As part of the BSF Programme, three new schools were procured through two PFI (Private Finance Initiative) Contracts. The schools were delivered in two phases and both achieved Financial Close in 2010:

Phase 1 - Pleckgate High School

Phase 2 - Witton Park High School and Blackburn Central High School with Crosshill

On the 21st September 2009, Balfour Beatty Education was appointed as the Council's selected partner to form the Blackburn with Darwen and Bolton Local Education Partnership to deliver the BSF investment programme across the Borough.

On the 12th July 2016, the Local Education Partnership (LEP) formally notified the Council of Balfour Beatty Investment's decision to sell its shares in the PFI Companies and the LEP; the shareholding was then subsequently sold to Amber Fund Management.

Since this change, and following approval from the LEP Board, the financial advisory arm of Amber Fund Management has initiated a scoping exercise to consider refinancing of the PFI Contract.

Financing Arrangements

The Department for Education, along with HM Treasury, are keen that all local authorities achieve savings on operational private finance projects that they may have and are actively encouraging those Authorities with PFI projects with a Financial Close date prior to early 2010 to explore the option of refinancing these projects, replacing the existing debt with debt at a lower margin.

Interest rates have been historically low for some time now and are significantly lower than the rates that were entered into on the contracts at the date of Financial Close back in 2010.

4. KEY ISSUES & RISKS

The Council has been approached by the PFI company financial advisers to consider a proposal for the refinancing of Blackburn with Darwen's senior debt within the PFI deals of the two PFI Agreements.

They have advised that there may be an opportunity to deliver a saving on the swap break costs with the lenders which could deliver a substantial financial benefit however, given the current economic uncertainty caused by Brexit and the impact it could have on interest rates, there may be a limited window of opportunity in terms of securing such savings and they have expressed the need to move quickly on this.

The Council would be entitled to a share of any refinancing gain according to the terms of the PFI Project Agreement.

As an individual party in the PFI Project Agreement, the Council will have to appoint its own advisers to carry out the due diligence on the legal and financial aspects of any refinancing exercise to protect the Council's interests throughout the negotiations and to ensure we achieve optimum value for money.

The detail behind the proposed appointment of advisers is included within the associated Part 2 report on this agenda.

5. POLICY IMPLICATIONS

There are no specific policy implications associated with this briefing paper.

6. FINANCIAL IMPLICATIONS

Costs of appointing advisers

The detail of the financial implications is included within the associated Part 2 report on this agenda.

Refinancing gain

The savings to the Council will not be clear until the refinancing exercise progresses and the detail of any refinancing gain is known. Such a gain will result in savings on the overall cost of the PFI projects.

Any refinancing gain will be shared between Amber Fund Management and the Council according to the terms of the contract once adviser fees (from both the Council & other shareholders) have been

recovered. In this regard, the two shareholders in the LEP are Amber Fund Management who own 90% of the shares and the Council who own 10%. The PFI companies are wholly owned by Amber Fund Management, the Council and the LEP so there are no other parties eligible for gain distribution.

7. LEGAL IMPLICATIONS

The refinancing process will follow the process as set out in the PFI Project Agreements. Any changes to the PFI Project Agreement and funding agreements will be reviewed by internal legal colleagues with the support of external lawyers.

Appointment of all advisers will be in accordance with the Councils Contracts and Procurement Procedure Rules.

8. RESOURCE IMPLICATIONS

This project will require support from Finance, Legal & Procurement to work with the Advisers.

9. EQUALITY AND HEALTH IMPLICATIONS

Please select one of the options below. Where appropriate please include the hyperlink to the EIA.

Option 1 Equality Impact Assessment (EIA) not required – the EIA checklist has been completed.

Option 2 In determining this matter the Executive Member needs to consider the EIA associated with this item in advance of making the decision. *(insert EIA link here)*

Option 3 In determining this matter the Executive Board Members need to consider the EIA associated with this item in advance of making the decision. *(insert EIA attachment)*

10. CONSULTATIONS

The Council has consulted with Amber Fund Management and potential external financial advisers to the project.

11. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

12. DECLARATION OF INTEREST

All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded in the Summary of Decisions published on the day following the meeting.

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CONTACT OFFICER:	Rizwana Karim and KatherineMcCormack
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DATE:	29 th June 2017
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BACKGROUND PAPER:	None
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