



EXECUTIVE BOARD DECISION

REPORT OF:	Executive Member for Resources
LEAD OFFICERS:	Director of Finance and Customer Services
DATE:	14 th March 2019

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

SUBJECT: Refinancing of Building Schools for the Future – Private Finance Initiative Phase 1 - Pleckgate High School

1. EXECUTIVE SUMMARY

Further to the Executive Board report in July 2017 and the Executive Member Decision in November 2018, this report provides an update on the recent refinancing of one of the two Private Finance Initiative (PFI) schemes which the Council entered into as part of the Building Schools for the Future (BSF) programme in 2010.

2. RECOMMENDATIONS

That the Executive:

Notes the outcome of the recent refinancing exercise for the Phase 1 Private Finance Initiative (PFI) Scheme – Pleckgate High School, the funding for which was originally put in place as part of the Building Schools for the Future (BSF) programme in 2010.

3. BACKGROUND

Most PFI contracts contain standard provisions stating that 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 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.

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.

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 attracts significant early redemption penalties as well as legal and advisory fees. The reduction in margins must therefore be significant enough to offset these costs.

It is common for this debt to be refinanced sometime after the completion of construction because the risks involved in the project generally reduce at this point which means that the initial loans can be replaced by loans

at a lower rate of interest. The approach made by the PFI Contractor to refinance was made because of the historically low level of interest rates that prevail at present.

Based upon their preliminary work, the PFI contractors advised the Council that the terms being offered by prospective funders would result in a net gain which would provide the Council with the following benefits;

- A share of the gain attributable to the Council as granting authority, as defined by sharing provisions in the initial Project Agreement in 2010, with any benefit from the refinancing to be split between the Council and the Project Company on the basis agreed at the time of the original PFI contract
- As the Council is also a shareholder in the Project Company (directly owning 9% of the shares in the Holding Company, and also 5% in the Local Education Partnership (LEP) who in turn own 10% of the shares in the Holding Company), the Council would receive 9.5% of the benefit identified above as accruing to the Project Company.

4. KEY ISSUES & RISKS

Following preparation and thorough review of the supporting legal and financial documentation, the actual refinancing transaction took place on 13th February 2019.

The financial gain to the Council as a consequence of the refinancing exercise is £1,033,000

5. POLICY IMPLICATIONS

There are no specific policy implications associated with this report.

6. FINANCIAL IMPLICATIONS

The refinancing has resulted in a financial benefit for the Council comprising;

Share of gain to the Council as granting authority £913,000

Share of gain to the Council as shareholder in the Project Company £120,000

TOTAL £1,033,000

These gains are stated after deduction of the costs for all financial and legal advisers engaged on the project, including those who were appointed to support the Council.

7. LEGAL IMPLICATIONS

The Council's Financial Procedure Rules have been complied with in the progression of the re-financing arrangement and the Council procured expert, external legal and financial advice to support this project.

1. RESOURCE IMPLICATIONS

Although there was some impact on finance, procurement and contracting staffing resources for the finalisation of the re-financing arrangements, the ongoing input and management of the PFI contract will not materially impact on the current staffing resources.

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

None.

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.

VERSION:	1.0
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CONTACT OFFICER:	Chris Bradley – Service Lead, Contracting and Procurement Team
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DATE:	14 th March 2019
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BACKGROUND PAPER:	Executive Board Decision - Refinancing of the Building Schools for the Future (BSF) Private Finance Initiative (PFI) contract – July 2017 Executive Member Decision - Refinancing of the Building Schools for the Future (BSF) Private Finance Initiative (PFI) contract Phase 1 – Pleckgate High School – November 2017
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