Alternative Funding Approaches

CIPFA TM Forum

27th February 2014

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Structure

- Where are you now?
- Where will you be at 31st March 2014?
- The following 3 years?
- How or can you get there?
- Risks?
- Opportunities?

Where are you now?

- Technical Team has reviewed 2012/13 Statement of Accounts for all 32 Local Authorities in Scotland

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Consolidated Position

- Unique opportunity to produce an “aggregate” Balance Sheet for Scottish Authorities for 2011/12 and 2012/13
- Also supports treasury strategy meetings and on-going discussions
- Helped to identify key themes
- Is your treasury position similar to strategy adopted by other Councils and Organisations?
  - Should it be?
  - Why would it be different?

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The Balance Sheet

- Balance Sheet is though just a snapshot in time
- Needs to be linked to future plans and strategies:-
  - Corporate Aims and Objectives
  - Medium-Term Financial Plans
  - Capital Plans and Strategies
  - Asset Management Plans
  - Reserves Strategy

- Effective treasury management will support revenue savings going forwards!
  - Don’t lose sight of the savings
  - What are the options?

What does the Balance Sheet tell you about treasury position?

- Position statement of financial position at the year – end
- It includes:-
  - Reserves and Balances
  - Cash investments
  - Capital (indebtedness) - CFR
  - ……… and related treasury position (borrowings)

Key Themes – Long-term Assets/Liabilities

	2011/12	2012/13
Long-term Assets	£37.7bn	£38.3bn
Financed/PFI	£25.6bn	£25.7bn
Underlying need to borrow	£12.1bn	£12.6bn
External Borrowing	£11.3bn	£11.6bn
Under-Borrowing	£ 0.8bn	£1.0bn

Key Issues - Borrowing

Collectively in 2012/13

- Borrowing Requirement rose by £573m
- External borrowing rose by £397m
- Therefore, increase of £176m in under-borrowing

- Level of under-borrowing now totals over £1bn
- ………. and increased in 20 authorities in 12/13
- Average under-borrowed position 8% (7% in 2011/12)
  - Similar position for England is 15%

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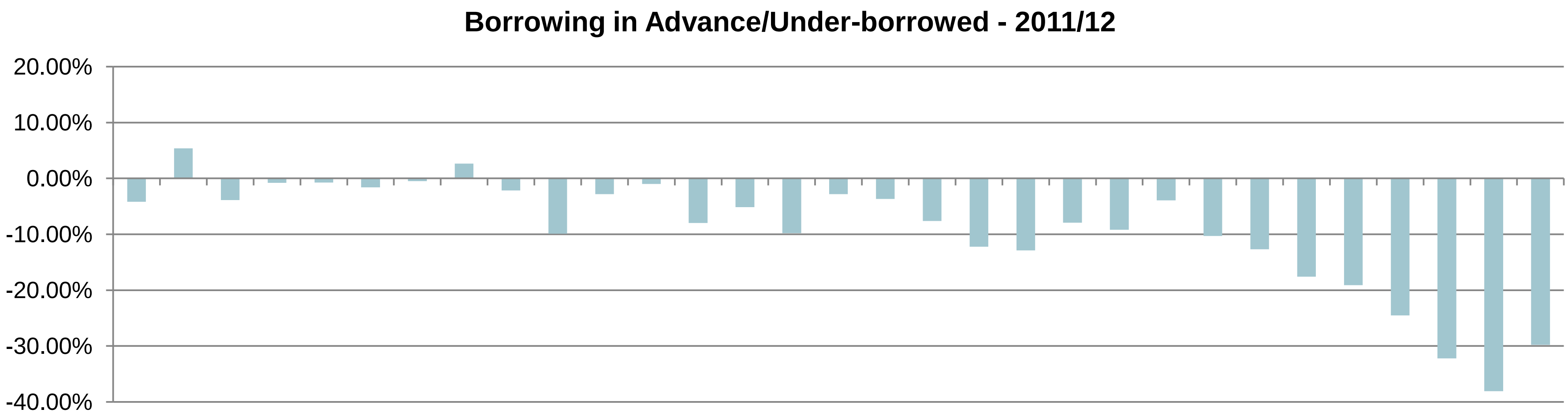

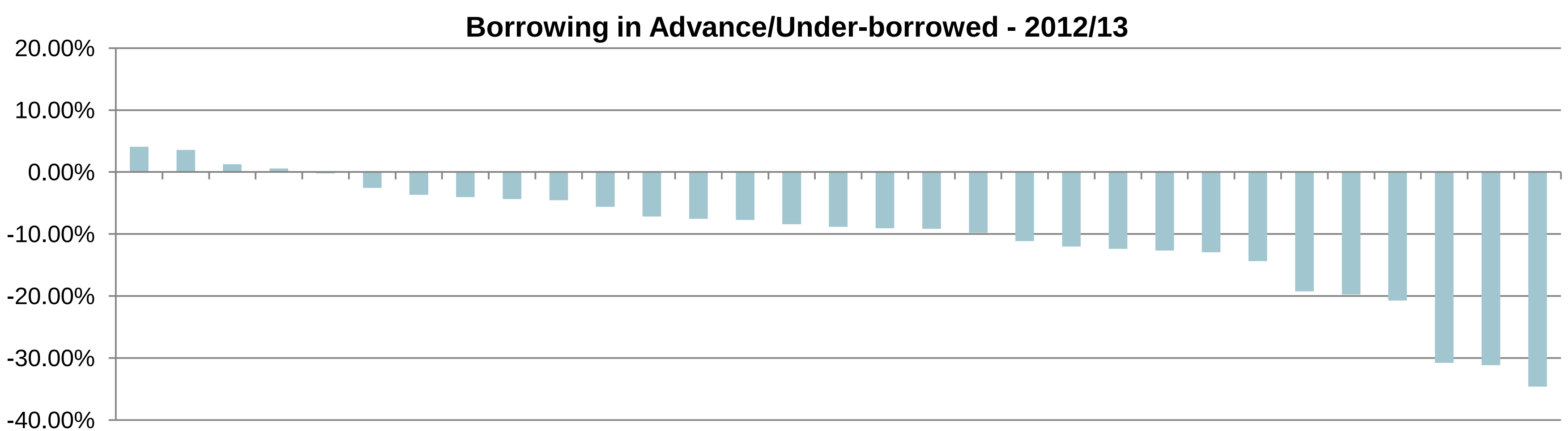

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Key Issues – Cash and Investments

	2011/12	2012/13
Reserves- General Fund	£ 365m	£ 354m
Reserves – HRA	£ 100m	£ 111m
Earmarked Reserves	£1560m	£1751m
Cap Receipts/Grants/Provisions	£ 288m	£ 238m
Total Reserves & Balances	£2313m	£2454m

- £141m increase in Reserves and Balances in 2012/13
- But Cash/Investments fell by £86m to £1,685m!

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CFR and Loans Fund Advances

- The CFR is repaid (charged to revenue) over time
- Asset lives???
- Scheduled Debt Amortisation (SDA)
  - Profiling SDA to reflect falling government support for borrowing costs
- Loans Fund Profile

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Loans Fund Advance Repayments

Finance Circular 29/1975

Up to 10 years	Vehicles ,fire appliances, library books, professional fees, office machinery, electrical / mechanical equipment
Up to 20 years	(Capital) repair / renewal –including coast & flood protection, rolling stock, fencing, furniture, machinery, plant, industrial electrical / mechanical machinery
Up to 30 years	Roads, street lighting, factory buildings
Up to 40 years	Construction/layout new buildings, Vessels, advances to private persons (capital?)
Up to 60 years	Land, housing, schools, planning compensation, bridges, impounding reservoirs, tunnels, piers & harbours

Loans Fund Advance Repayments

Local Government (Scotland) Act 1975 schedule 3

- Specific projects advances will affect the future profile of advance repayments that need to be charged against the General Fund / HRA
- What is your policy or approach for this?
- Applying resources – optimal approach?
  - Specific capital grant
  - General capital grant
  - Capital receipts
  - Revenue contributions
  - Leasing

Short life v long life assets

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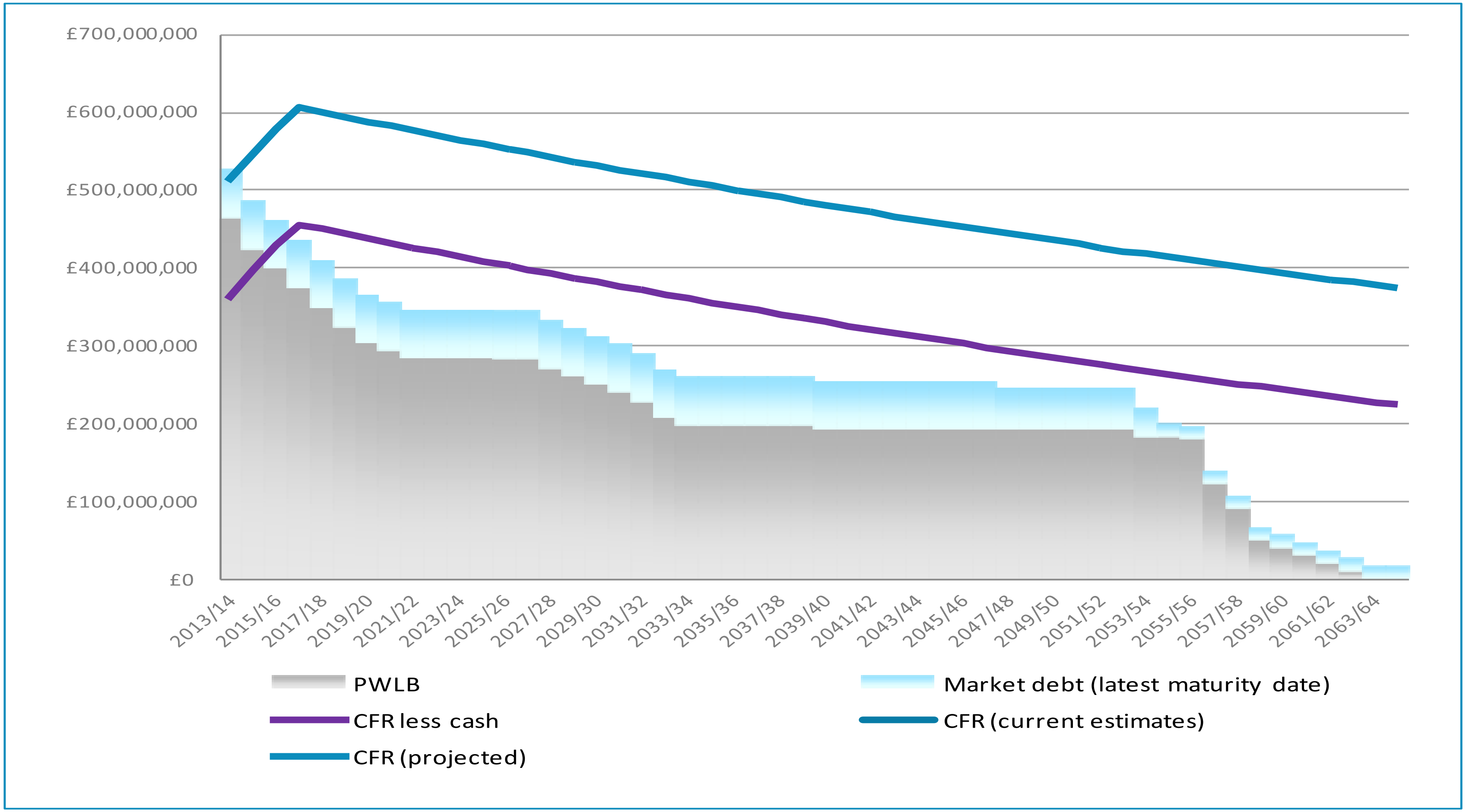
Outstanding loans compared to CFR – Overall Position



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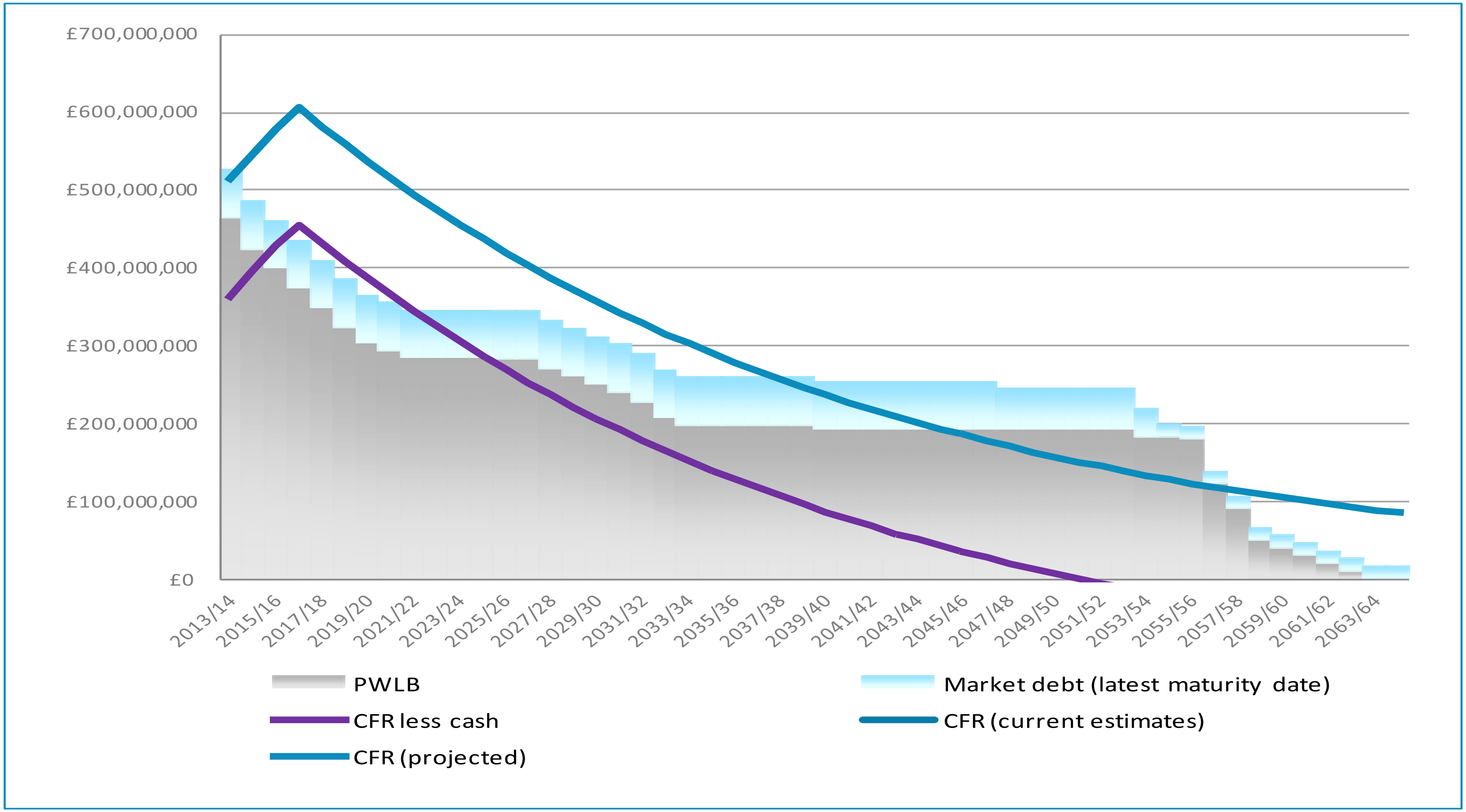

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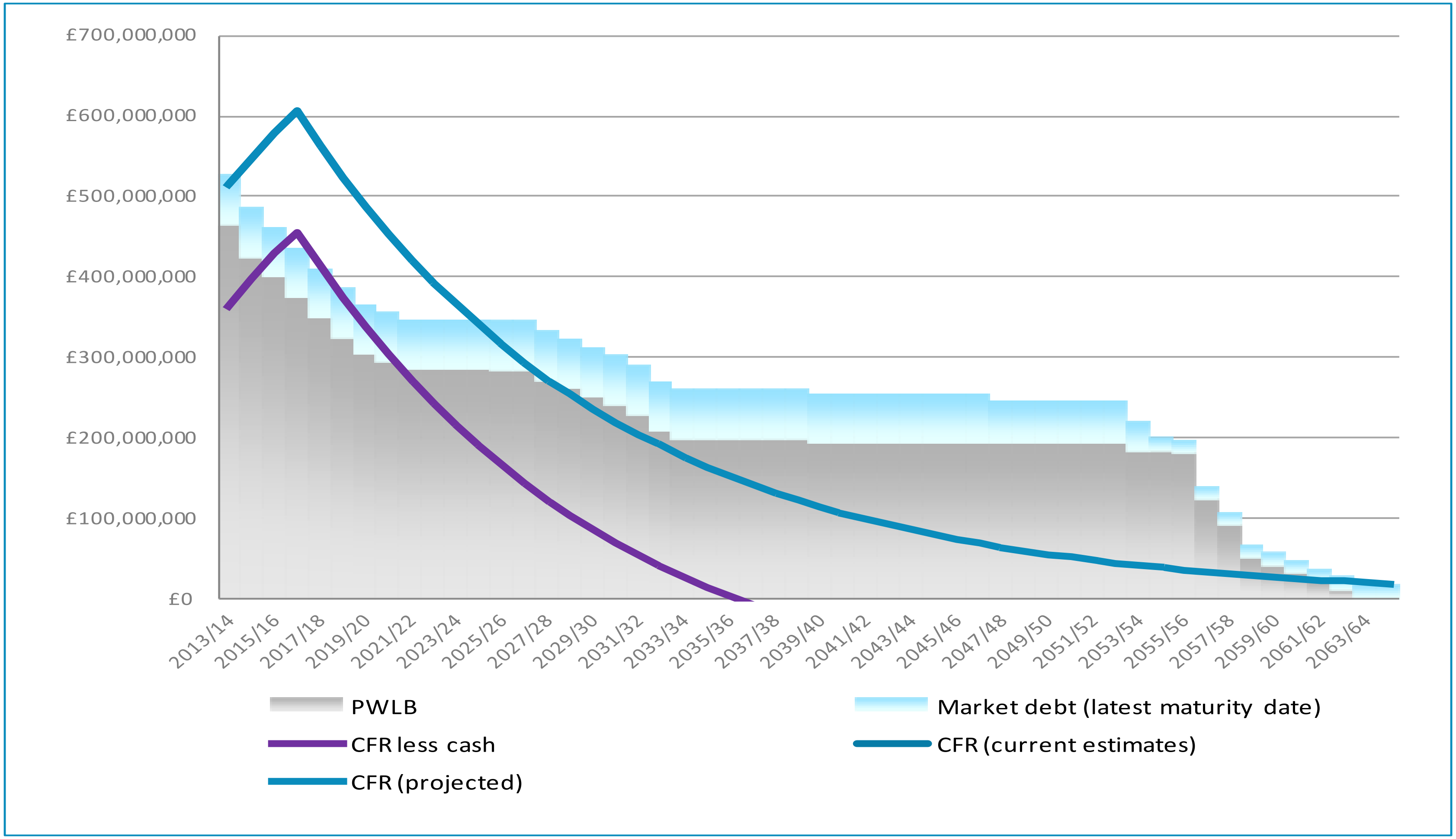

Treasury Considerations and Risks?

- Defer borrowing in current interest rate environment?
  - Internal borrowing
  - Temp borrowing
- What if rates rise further?
- Impact of utilising reserves – Investment balances fall?
- Helps to reduce credit risk?
- …….But when will cash run out?
- Where will interest rates be when need to borrow?
- Impact of CFR falling, where capital plans are reduced?
- Independence vote and remote possibility of national borrowing limits

Affordability!

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Borrow now or postpone – 5 years maturity loan

Borrowing currently against the forecast would cost in the first 4.5 years	£651,250
Postponing borrowing 4 years would cost over the 4.5 years	£90,000
A net gain of	£561,250
In order to make it neutral to borrow now, over the 4.5 years,	
investment rates would need to be higher by:	
At 2 years from now (based on investment period of cash)	1.49%
At 3 years from now (based on investment period of cash)	1.48%
At 4 years from now (based on investment period of cash)	1.80%
Alternatively the savings gained in the early years would underwrite	
the increased cost of the loan for:	
At 2 years from now	5.60 yrs
At 3 years from now	5.36 yrs
At 4 years from now	4.68 yrs

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Borrow now or postpone – 15 years maturity loan

Borrowing currently against the forecast would cost in first 4.5 years	£1,281,250
Postponing borrowing 4 years would cost over the 4.5 years	£167,500
Net Gain of	£1,113,750
In order to make it neutral to borrow now, over the 4.5 years,	
investment rates would need to be higher by:	
At 2 years from now (based on investment period of cash)	3.14%
At 3 years from now (based on investment period of cash)	3.13%
At 4 years from now (based on investment period of cash)	3.35%
Alternatively the savings gained in the early years would underwrite	
the increased cost of the loan for:	
At 2 years from now	6.63 yrs
At 3 years from now	12.20 yrs
At 4 years from now	8.25 yrs

Borrow now or postpone – 50 years maturity loan

Borrowing currently against the forecast would cost in first 4.5 years	£1,416,250
Postponing borrowing 4 years would cost over the 4.5 years	£175,000
Net gain of	£1,241,250
In order to make it neutral to borrow now, over the 4.5 years,	
investment rates would need to be higher by:	
At 2 years from now (based on investment period of cash)	3.39%
At 3 years from now (based on investment period of cash)	3.28%
At 4 years from now (based on investment period of cash)	3.50%
Alternatively the savings gained in the early years would underwrite	
the increased cost of the loan for:	
At 2 years from now	8.14 yrs
At 3 years from now	10.26 yrs
At 4 years from now	10.34 yrs

Need for individual approach

- Need to consider your individual position
- CFR forecasts flat/core funds stable/no maturing debt/investments
  - Little borrowing pressure
- Rising CFR/core funds falling/maturing debt/no investments
  - A stronger case for borrowing
  - 15+ years – carry through current turmoil
  - But, appreciate medium term costs
- Consideration to running volatility?
  - Run down investments & operate a short term borrowing position (up to 25%?)
- TIF?

Affordability considerations

- Reduce future risk?
  - Borrow within budget/MTFP constraints
  - When rates hit trigger rates
- Accept risk/return benefits
  - Cannot afford to pay the additional interest costs
- Take a measured response
  - Budget to borrow
  - Borrow if interest rate view deteriorates
  - If forecast holds
    - Take some revenue savings
    - Bank part in interest rate reserve to mitigate potential future costs?

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PWLB or ……………….

- LOBOS
  - Corporate provider
    - 15 year structure with 5 year calls
    - Forward starting – currently to December 2014
    - Mitigate cost of carry and counterparty risk
    - Diversity from PWLB
- Corporate Pension Funds
    - Not for Scotland!!
- Bonds Agency
    - Appetite – timeline – costs – earlier presentation
- Leasing
    - As noted earlier - short life assets

SPRUCE: Scottish Partnership for Regeneration in Urban Centres

- SPRUCE is a specialist Fund backed by the Scottish Government ("SG") and European Investment Bank ("EIB")
- SPRUCE provides competitive funding to public and private sector projects that improve energy efficiency in 13 local authority areas of the Lowlands and Uplands of Scotland
- Initial Fund size £48m, SPRUCE has successfully advanced £32m and has an active pipeline of projects
- SPRUCE can currently provide 7 year committed funding from c1.80% on a Maturity basis, significantly below the equivalent PWLB rate
- SPRUCE is managed by Amber Fund Management, further information available at www.ambergreenspruce.co.uk

SPRUCE: Investment Criteria

- Clackmannanshire, Dundee, East Ayrshire, Edinburgh, Fife, Glasgow, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire, South Lanarkshire, West Dunbartonshire, West Lothian
- Local Authorities are a key borrower for SPRUCE given their strategic role in the community and ability to undertake large scale capital expenditure projects
- Projects must have a 20% Energy Saving and for every £1500 spent a tonne of carbon dioxide is saved
- SPRUCE can finance energy efficiency measures, district heating networks and energy generation measures
- SPRUCE's investment must be fully drawn by 31 December 2015
- Projects must be State Aid compliant

Conclusion

- Borrowing is ultimately determined by the capital needs
- Debt should be positioned to reflect your risk appetite
- You should aim to source the borrowing from the cheapest, most flexible form
- Once borrowed you should continually review the borrowing portfolio
- Is internal borrowing still the best deal in town?
  - If so for how long
  - Risk appetite
  - Treasury savings???

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