

An independent view of funding options

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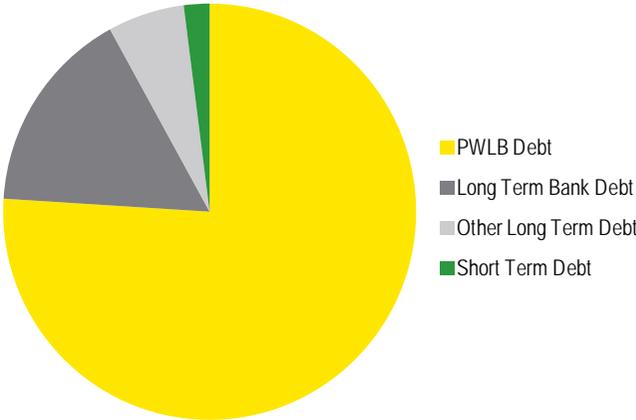
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Why look at alternatives to PWLB funding?

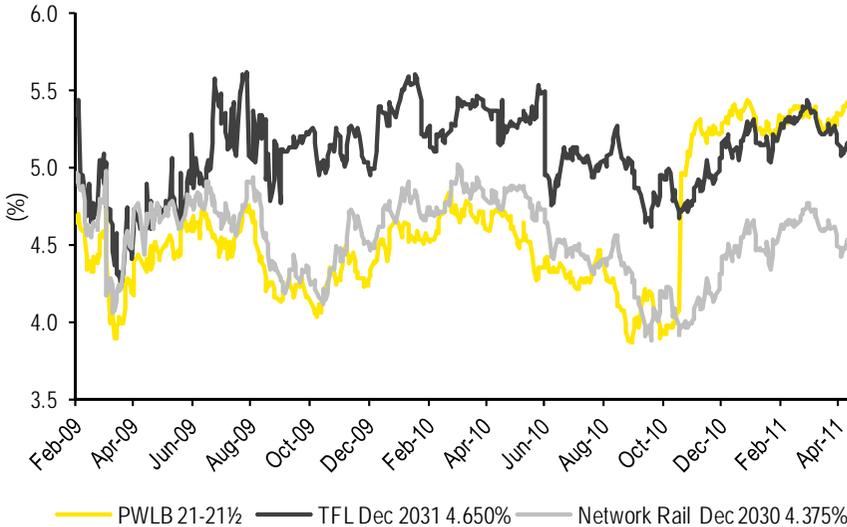
- ▶ HRA Subsidy Reform Settlement clock is ticking – 11 months to go
- ▶ PWLB traditionally significant source of funding (£5 billion p.a.) but post CSR other sources of funding may be cheaper
- ▶ Move away from PWLB funding would be major shift for the sector and will only occur if alternatives are cost-effective, efficient, transparent and low risk

Breakdown of UK local government debt



Total Debt: £53.6bn (2008/2009) Source: Moody's

PWLB fixed rate funds vs TFL and Network Rail bond yield



Source: PWLB, Bloomberg

Assessment of funding options and decision drivers

Potential funding markets

- ▶ Commercial Paper
- ▶ Bank Facility or Term Loan (with swaps)
- ▶ Sterling Public Bond (rated or unrated)
- ▶ Sterling or possibly cross-border Private Placement (unrated)

- ▶ LSE Retail Bond Market
- ▶ Financial Promotion

Decision drivers and considerations

▶ Single credit or “pooled” structures?

- | | | |
|-------------------------|--|---|
| ▶ Certainty of funds | ▶ Indexation | ▶ Complexity |
| ▶ Price | ▶ Timing | ▶ Disclosure requirements |
| ▶ Maturity | ▶ Market depth / liquidity | ▶ Public scrutiny |
| ▶ Min. denomination | ▶ Refinancing risk | ▶ Management time (upfront and ongoing) |
| ▶ Structure | ▶ Derivatives (interest rate and cross currency) | ▶ Transaction costs (upfront and ongoing) |
| ▶ Security /Guarantees | ▶ Amortization / bullet | ▶ Rating costs and time requirements |
| ▶ Terms | ▶ Management resource / experience | |
| ▶ Repayment flexibility | | |
| ▶ Delayed draw-downs | | |

Why appoint an Independent Advisor?

- ▶ Independent
 - ▶ Generalist cross-product approach – no market or transaction agenda
 - ▶ Helping to identify key drivers and objectives enabling more informed decision making
 - ▶ Fees independent of outcome or transaction
 - ▶ Reducing “knowledge gap” between Issuer and “the market” – both intermediaries and the ultimate lender/investor
 - ▶ An independent referee increases process integrity and transparency – a sounding board that sits alongside management throughout process

- ▶ Experience
 - ▶ EY is one of the leading Independent Advisors to Local Authorities on funding
 - ▶ Highly experienced Capital & Debt Advisory team with recent execution expertise across all markets

- ▶ No “one size fits all”
 - ▶ Advice specific to the needs and situation of each borrower
 - ▶ Solutions will vary

Outline process

- ▶ Phase 1 – Assess, Evaluate, Explore and Recommend
 - ▶ Assessment of funding need and existing credit profile
 - ▶ Prioritization of key decision drivers
 - ▶ Assessment and evaluation of all funding market options and all-in costs
 - ▶ Market testing [if required]
 - ▶ Formal recommendation paper

- ▶ Phase 2 – Plan, Prepare, Appoint and Execute
 - ▶ Coordination and process management of all parties from start to finish
 - ▶ Set out transaction timeline and roles
 - ▶ Advise on credit rating process [if required]
 - ▶ Advise on appointment of intermediaries (Bookrunners, Agents etc), negotiation of roles and fees etc [if required]
 - ▶ Support on preparation of all Offering Materials
 - ▶ Advise on appointment of legal counsel
 - ▶ Advise in relation to pricing and reaching financial close

Conclusion

- ▶ For many, especially those with smaller funding requirements, the PWLB will likely continue to offer the best mix of price, flexibility and certainty – absent any centralised pooled highly rated funding vehicle
- ▶ For those with funding requirements in excess of £25 million there are alternatives to the PWLB that could be price competitive that should be explored
- ▶ For many the bank and debt capital markets are new territory
- ▶ Time is marching on
- ▶ EY's Capital & Debt Advisory practice has 18 professionals based in London & Manchester
- ▶ EY has a deeply discounted consulting fee framework in place for advising Local Authority and Housing Association clients on funding

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