

## Appendix 1 – Costing Options

### **Capital Financing Requirement (CFR) Methodology**

All capital expenditure financed by borrowing is currently financed in this way. Essentially, we apply the concept of financing all debt collectively, not applying debt to specific schemes. This allows us to:

- Use internal resources (reserves) before borrowing externally which is cheaper.
- Only takes debt as we need it.
- Create an even maturity of loans thus reducing refinancing and interest rate risk
- Charge all capital schemes at the same rate i.e. the average cost of debt so capital program can deliver even in high interest rate environments.
- Allow the Authority to borrow at the most opportune time, when rates are low.

### **Local Climate Bonds to CFR method**

It is not possible to make a direct comparison, however it is thought that CFR will remain the cheapest mechanism to borrow because:

- LCBs take debt upfront and costs are incurred before the capital expenditure happens. Larger schemes may take span multiple years and cost of carry could be significant.
- CFR borrows from reserves initially, this reduces investment balances so rate is the lost investment, investment returns historically track lower than borrowing rates.
- Falling rate environment means this opportunity cost will fall over the next few years but matching debt to a scheme will remain constant.

### **LCB to PWLB**

Authority	Date	LCB rate	Fees	Overall rate	PWLB	Fees	Overall rate	Variance	
Lewisham	22/05/2022	3	4.30%	0.15%	4.45%	4.88%	0.07%	4.95%	0.50%
Islington	29/10/2022	1	1.55%	0.09%	1.64%	1.43%	0.07%	1.50%	-0.14%
Hammersmith & Fulham	15/11/2022	3	4.85%	0.30%	5.15%	5.32%	0.07%	5.39%	0.24%
Southwark	11/09/2022	4	4.00%	0.35%	4.35%	4.50%	0.07%	4.57%	0.22%
Westminster City	13/03/2022	3	4.20%	0.15%	4.35%	4.32%	0.07%	4.39%	0.04%
Telford & Wrekin	19/05/2022	2	2.10%	0.10%	2.20%	2.28%	0.07%	2.35%	0.15%
Cotswolds DC	27/04/2022	2	2.10%	0.10%	2.20%	2.33%	0.07%	2.40%	0.20%
Average								0.17%	
Per £1m / annum								£1,729	

LCBs appear in most cases to be taken at cheaper rates than PWLB. LCBs charge annual and initial setup fees (averaged out over 5 years) and it appears these fees are variable on different loans. PWLB loans can be taken quickly and for terms up to 50 years so satisfy very different borrowing requirements to LCBs.

### LCBs to Local Authority Borrowing

Authority	Date	LCB rate	Fees	Overall rate	Local to Local	Fees	Overall rate	Variance	
Lewisham	22/05/2022	3	4.30%	0.15%	4.45%	4.63%	0.02%	4.65%	0.20%
Islington	29/10/2022	1	1.55%	0.09%	1.64%	1.18%	0.02%	1.20%	-0.44%
Hammersmith & Fulham	15/11/2022	3	4.85%	0.30%	5.15%	5.07%	0.02%	5.09%	-0.06%
Southwark	11/09/2022	4	4.00%	0.35%	4.35%	4.25%	0.02%	4.27%	-0.08%
Westminster City	13/03/2022	3	4.20%	0.15%	4.35%	4.07%	0.02%	4.09%	-0.26%
Telford & Wrekin	19/05/2022	2	2.10%	0.10%	2.20%	2.03%	0.02%	2.05%	-0.15%
Cotswolds DC	27/04/2022	2	2.10%	0.10%	2.20%	2.08%	0.02%	2.10%	-0.10%

Average	-0.13%
Per £1m / annum	-£1,271

Borrowing from other local Authorities can be taken at rates below the PWLB. We currently lend to other LA's and see discounts of around 0.25% which is what has been applied in this scenario. Interest paid on borrowing remains within the sector, directly creating social value.

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