2.3.2 Conversely, the Finance Services Manager considers that there could be a risk of not repaying debt, retaining substantial receipts and earning interest. For example, the Council could lose Government grant/capital investment from any future changes to funding mechanisms. This may prove to be the case.

2.4 Effect on the Council's Base Budget

2.4.1 The cost benefit analysis undertaken by the Finance Services Manager compared the various cash flows, that is, the savings in debt interest compared to the **potential return** on short-term deposits. The latter would generate around £350,000 to £360,000 per year in the medium term to 2010 at current interest rates.

2.4.2 It is important to note that the Council is not yet budgeting for this amount. The current 3-year financial forecast to March 2006 contains a budget for interest on deposits of £157,000 per year. (Clearly this is understating the current position; the 2002/03 actual out-turn was £192,000 and the latest projection for this year 2003/04, is around £300,000).

2.4.3 It could be considered that the council should increase its budget for interest on investments to reflect recent experience and a more accurate forecast of future receipts. The counter argument to this is that as interest rates and cash balances are not easy to forecast, it is prudent to set the budget on the basis of a relatively modest income. However, it appears to me that South Derbyshire District Council's financial forecasts are sufficiently robust to support an increased budget.

2.4.4 However, the appraisal of the proposal to make an early repayment of debt should be carried out on the basis of the best available forecasts of cash flow, income and expenditure rather than on the data that is included in the budget.

2.4.5 The Finance Services Manager has calculated that if all Public Works Loans Board debt were repaid, the effect on the Council's base budget for 2004/05 would be as follows.

Change to Base Budget	£'000	**Comment**
Savings on debt interest to Public Works Loans Board	620	Predictable and certain.
Loss of Housing Subsidy	-48	Could change slightly depending on final subsidy calculation, but is not considered material.

Loss of Deposit Interest (as budgeted)	-157	It is likely that income would still be generated, as some money would remain on deposit. However, depending on overall cash flow, this could be offset by a need to borrow on an ad-hoc basis during the year.
Overall Savings	**415**	

2.4.6 Clearly, this represents quite significant on-going savings on the current base budget. It may also be considered that the loss of housing subsidy is not a material factor as it would not reduce the resources that are available in the Council's housing revenue account.

2.4.7 For comparison, the Finance Services Manager calculates that the additional deposit income generated by retaining the set-aside receipts would be approximately £200,000 (compared to the current budget of £157,000) which is lower than the potential savings in the above table.

2.4.8 However, as shown in the sensitivity analysis carried out by the Finance Services Manager, an increase in interest rates on deposits from the current 3.46% to 5.5% and above, would generate income in excess of the savings generated by repaying the debt.

2.5 Alternative Options

2.5.1 The Council could use its balance of receipts in other ways, and these are considered below.

Option 1 - Part Repayment of Debt

2.5.2 A part repayment of debt could be made to maintain some flexibility, whereby some debt could repaid and the remainder kept on deposit pending a future review or change in circumstances.

2.5.3 The Finance Services Manager has analysed the Net Present Value of repaying individual loans. This shows that every loan within the portfolio on its own would generate cash and Net Present Value savings at current interest rates. However, except in 1 or 2 cases, the savings are relatively small each year, especially at a net present value level.

2.5.4 A range of scenarios could be modelled and sensitivity analysis applied. However, in attempting to maximise savings, given the Council's portfolio, it appears more beneficial to the Finance Services Manager to repay a group of loans within the overall portfolio.

2.5.5 In essence, the loans that effectively carry the greater cost to the Council are loans one to fifteen. These are at rates of interest substantially higher than current (and in fact predicted) market rates and therefore carry severe penalty payments.

2.5.6 Loans 16 to 20 are at interest rates more in line with current rates and probably represent better value for money in the longer term (this is reflected in the relatively low penalty payments).

2.5.7 Repaying loans 1 to 15 would repay approximately 50% of the debt (£4.1m), but would still cost around £2.3m in penalty payments.

2.5.8 The effect of repaying these loans only has been calculated by the Finance Services Manager and the table below provides a summary.

Years	2004/07 (3 years) £'000	2007/10 (3 years) £'000	2010/22 (12 years) £'000	2022/30 (8 years) £'000	TOTAL (26 years) £'000
Savings in Public Works Loans Board Interest Payments	1,233	1,152	3,849	226	6,460
Amount lost in Housing Subsidy	-66	-66	-263	-175	-570
Loss of Deposit Interest	-685	-662	-2,407	-857	-4,611
Net Savings/ Cost (-)	**482**	**424**	**1,179**	**-806**	**1,279**
Average per Year	**161**	**141**	**98**	**-101**	
Net Present Value	452	358	800	-372	1,238
Average per year	151	119	67	-47	

2.5.9 In comparison with full repayment, the overall net savings are around £200,000 greater over 26 years. However, this is due to the "loss period" at the longer end, being 9 years less than that for the full repayment option.

2.5.10 However, in the medium term, the savings are considerably lower at around £3/4m to 2022, compared to the full repayment option.

Option 2 - Charge the Penalty Payment to Revenue

2.5.11 A fundamental issue to note in the appraisals that have been carried out by the Finance Services Manager is that these show the effect on the Council's Revenue Account (the main General Fund). The penalty payment is effectively outside this as it is assumed that it would be capitalised, to take advantage of the opportunity that closes on 31st March 2004. Although it has been included in calculating the loss of deposit interest, it is effectively a "sunk" cost as it is a price of repaying the debt early. However, this money cannot be currently used for other means such as to support spending.

2.5.12 Penalty payments are usually accounted for through an authority's revenue account, being written off over a maximum of 10 years (in the Council's case £250,000 per year). In addition, an element can be charged to the Housing Revenue Account (23% or £58,000 in the Council's case) and reclaimed through Housing Subsidy.

2.5.13 The effect of doing this on the full repayment scenario has been calculated by the Finance Services Manager and is summarised below.

Years	2004/07 (3 years) £'000	2007/10 (3 years) £'000	2010/22 (12 years) £'000	2022/39 (17 years) £'000	TOTAL (35 years) £'000
Net Savings/ Cost (-)	**31**	**-28**	**912**	**-1,753**	**-838**
Average per Year	**10**	**-9**	**76**	**-103**	
Net Present Value	30	-23	554	-683	-122
Average per year	10	-8	46	-40	

2.5.14 It can be seen that overall, there would be a cost on the General Fund. Effectively, the cost of the penalty reduces the more significant savings in the short/medium term to 2010 (in fact there is a loss in the last 3 years to 2010).

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2.5.15 In addition, the Council does run a risk with this option, in that it relies on no changes to housing finance and the subsidy system for the next 10 years, in particular the allowance of charging a proportion of the penalty to the Housing Revenue Account.

2.5.16 The Finance Services Manager has also considered the effect on the Council's Base Budget. Again, the cost benefit analysis undertaken compares the various cash flows, including the savings in debt interest compared to the potential return on short-term deposits. Referring back to the table above that shows potential savings of approximately £415,000 on the current base budget, the cost of the premium could be absorbed, although this would reduce annual savings to around £220,000 on the General Fund.

2.5.17 It could be considered that regardless of whether the Council decided to charge the premium to the revenue or the capital account, the cost of paying the premium is a real cost to the council that ought to be taken account of in the appraisal as a cash outflow in the first year.

Option 3 - A Managed Investment Fund

2.5.18 Clearly, the Council does not have to repay debt and this analysis shows the effect of maintaining money on deposit. This is assumed to be on effectively a short-term and very little risk basis. Therefore, the Finance Services Manager considers that the authority may wish to look at alternatives to try to maximise returns.

2.5.19 This could be done by entering into a formal agreement to have some or all of its accumulated receipts managed (for a fee) in an investment fund by a treasury management specialist. Although this may generate additional interest compared to that being earned now on the short-term market, the Finance Services Manager considers that it would carry a higher risk.

2.5.20 This is due to the fact that to earn better returns, funds would need to be invested over a longer term without the flexibility of recalling them at short notice. In addition, due to the nature of investments, returns can go up and down – the current situation of local authority pension funds is evidence of this.

2.6 Revised Calculations

2.6.1 In view of the foregoing discussion, I have prepared an alternative analysis of the early redemption of the Public Works Loans Fund debt based on the calculations that have been prepared by the Finance Services Manager.

2.6.2 The calculation compares the cash flows that would be expected were the loans to be retained with the cash flows that would be expected were the loans to be repaid on 31st Match 2004. These calculations include repayment of principal, payments of interest and the premium for early debt redemption. An adjustment is made to reflect the fact that 7.81% of the debt relates to the Housing Revenue Account. Discounted cash flow is then used to calculate a net present value for each option.

2.6.3 In both situations principal of £7,999,344 is repaid. If the loans are retained interest payments of £11,939,892 are made during the years 2004/2005 to 2038/2039. If loans are repaid early then a premium of £2,538,447 is paid. Using a discount rate of 3.5% (which is in accordance with the government's guidance and close to the current level of interest received on deposits) a net present value is calculated for retaining the loans of £11,267,222 is calculated compared with a net present value of £9,714,790 for their early repayment. This calculation indicates that it would be in the council's long-term interest to make an early repayment of these loans. The calculation is summarised in Appendix two.

2.6.4 Sensitivity analysis has been carried out on the rate of interest to calculate that 4.7% is the rate of interest at which the net present value of the two options is the same. If it is considered that rates of interest in the long-term are likely to exceed 4.7% the calculation suggests that retention of the debt would be in the best long-term financial interests of the authority. It should be noted that interest rates are forecast to reach 4.75% by the end of 2004 but that rates may fall thereafter. The calculation is summarised in Appendix three.

2.6.5 The same calculation has been applied to each individual loan to identify whether a different conclusion could be drawn in the case of different loans. This calculation concluded that at a discount rate of 3.5% it would be in the long term financial interests of the council to make an early repayment of these loans. The calculation is summarised in Appendix four.

2.6.6 This methodology allows a comparison to be made between the cash flows that arise from the alternative treatment of the loans without including a calculation of the interest that would be foregone on the deposits. The effect on investment income is accounted for by using 3.5% as the discount rate in the calculation of net present value. The conclusions of this analysis support the conclusions that have been reached by the Finance Services Manager.

2.7 Conclusions

2.7.1 The Chief Financial Officer of South Derbyshire District Council, as the officer responsible for the 'proper financial administration' of the council must clearly satisfy himself that whatever decision is taken regarding the authority's public works loans fund debt, that it is in the best financial interests of the Council.

2.7.2 Repaying all Public Works Loans Board debt is likely to be in the best financial interests of the Council in the long-term. Furthermore, as the premium can be capitalised and funded from capital receipts, early debt repayment could produce quite substantial savings on the Council's General Fund in the short and in fact longer term (the next eighteen years). Although there would be an overall cost from 2022 onwards, this is relatively small on an annual basis. Depending on the Council's financial position in later years, any future financial strategy could include an annual provision to provide for this cost.

2.7.3 The main cost involved is the potential returns that could be lost by keeping the money on short-term deposit. The average interest rate is currently 3.46% but is steadily rising in accordance with recent base rate changes. Many predictions for interest rates indicate a continuing rise. However, the government currently advises local authorities to use a discount rate of 3.5% when carrying out long-term investment appraisals, and some economists predict lower rates of interest in the longer term especially if the United Kingdom adopts the Euro.

2.7.4 The Finance Services Manager calculates that the critical rate for this exercise appears to be around 5% to 5.5%, where interest earned outweighs the saving from debt repayment. My own analysis suggests that the break-even point may be at a lower level of interest, perhaps as low as 4.7%.

2.7.5 Using managed investment funds does carry a higher risk, and although returns could be higher, this is by no means certain. However, maintaining money on short-term deposit does provide flexibility whilst continuing to earn interest.

2.7.6 If debt is repaid, the greatest savings derive from repaying the total portfolio, especially as the Council currently has sufficient set-aside receipts to do so, including the penalty payment. Although this penalty is effectively a "sunk" cost, taking advantage of the opportunity to capitalise it would generate additional revenue resources.

2.7.7 The penalty payment used in this appraisal is considered to be the maximum payable. As interest rates rise, this will reduce. Therefore, depending on the timing of any repayment between now and 31st March 2004, this might benefit the Council further.

2.7.8 In summary, there does appear to be a strong business case for repaying the Council's Public Works Loans Board debt. This would reduce a significant liability in the Council's General Fund on an on-going basis. The principal argument for not doing so, would be if there was an expectation that long-term rates of interest would rise above 4.7%.

2.7.9 My recommendation is that the Chief Financial Officer should consider the early repayment of debt as outlined in the Finance Services Manager's report of 21st November 2003 and this report, and advise the Council accordingly.

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3. Independent guidance on technical issues including the balance sheet, credit ceilings and the potential effect on the Housing Revenue Account

3.1 Clarification of the legality of using the Provision for Credit Liabilities to capitalise the penalty payment.

3.1.1 In its August 1999 consultation paper 'Housing Transfers in England – Dealing with Overhanging Debt and altering the LSVT' the Department of the Environment, Transport and the Regions made known its informal view that premiums from the Public Works Loans Board for early debt redemption may be made from the provision for credit liabilities. This has remained the view of the Office of the Deputy Prime Minister.

3.2 Whether the Council needs to prove that the Provision for Credit Liabilities (or at least the amount that would be used) is cash backed, and if so how this should be done.

3.2.1 Some authorities do hold a provision for credit liabilities that is not cash backed. However, repayments of debt have to be done with 'real money' so a provision for credit liabilities that was not cash backed could not be used.

3.3 Whether this applies only to the penalty payment or the total debt repayment.

3.3.1 Whether cash backed provision for credit liabilities can be used to meet early repayment premiums is a grey area. Neither the Office of the Deputy Prime Minister nor the Public Works Loans Board takes a public view. It is understood that most auditors would allow the provision for credit liabilities to be used in this way. However, it is for each local authority to ensure that it is acting legally, and it would therefore be prudent to consult the authority's solicitor and external auditor to seek their advice in the specific circumstances of South Derbyshire District Council.

3.4 Whether, if the Provision for Credit Liabilities is used the General Fund Credit Ceiling would increase as a result – and whether this would increase Minimum Repayment Provision.

3.4.1 Regulation 118a of the 'Local Authorities (Capital Finance) Regulations 1997' (statutory instrument 1997/319), as amended by statutory instrument 2000/1773, provides that the payment of premium to the Public Works Loans Board increases the authority's credit ceiling. This amendment was made so that a local authority's aggregate credit limit increased by the same amount. Otherwise, some local authorities might find that their aggregate credit limit was breached illegally.

3.5 The effect of the whole exercise on credit ceilings (approximately £11m General Fund & £2m Housing Revenue Account).

3.5.1 Payment of the premium would only affect the Housing Revenue Account credit ceiling if the premium related to a Housing Revenue Account debt.

3.5.2 The Finance Services Manager has checked all the calculations of the credit ceiling from the inception of the current capital financing regime on 1st April 1990 and has concluded that the initial basis for the ceiling was incorrect, although all other adjustments over the years appear to be in accordance with the regulations. The starting point at 1st April 1990 should have been £16.5million rather than £27.9million. The difference of £11.4million is principally due to the inclusion of temporary borrowing and a cash overdrawn figure which amounted to around £10million. I have reviewed these calculations and have found them to be correct. The effect of this error has been that since 1990/1991 South Derbyshire District Council has overstated its credit ceilings and has set aside more in minimum repayment provision than was necessary. However, even if the calculation of the credit ceiling is adjusted, South Derbyshire District Council would retain a positive credit ceiling even after all public works loans board debts were repaid.

3.5.3 The repayment of debt does not reduce an authority's credit ceiling. In itself it does nothing to the credit ceiling. Rather, it is the setting aside of capital receipts or revenue as a provision for credit liabilities that actually reduces the credit ceiling.

3.5.4 Under the current system, apart from having no outstanding borrowing, a local authority must have a nil or negative credit ceiling at the beginning of the financial year to be exempt from certain set-aside requirements under regulation 65 of the 1997 regulations. It must have a negative credit ceiling on the last day of the preceding financial year to use its provision for credit liabilities for capital expenditure under regulation 154 and section 64(4) of the Local Government and Housing Act 1989. The condition in regulation 33 of the 2003 regulations is slightly different in that the credit ceiling must be nil or negative only on 31st March 2004, so it is still possible for an authority with a positive credit ceiling on 1st April 2003 to benefit from transitional reductions in pooling if it has paid off outstanding debt and made its credit ceiling negative by 31st March 2004.

3.5.5 While 'debt free' authorities have greater freedom in their use of capital receipts, and there are transitional benefits under the new system as set out in regulations 21 and 33 of the 2003 regulations, in the long-term 'debt free' and indebted authorities will have the same freedoms in using their capital receipts.

3.6 Whether the Council would still have credit ceilings with effectively no debt.

3.6.1 All local authorities, including the debt free have credit ceilings. However, as stated above, one of the conditions of debt free status is that its credit ceiling is nil or negative at the beginning of the financial year.

3.7 Whether, in this case, a Minimum Repayment Provision would still be required and the logic of how this would tie in with having no debt.

3.7.1 All local authorities with nil or negative credit ceilings (which include all debt free authorities) are, by virtue of paragraph 15(2) of schedule three to the Local Government and Housing Act 1989, exempt from the requirement to make a Minimum Repayment Provision.

3.8 Summary of advice on technical issues

3.8.1 It appears that the early repayment of public works loans fund debt can be justified on the basis of the long-term cash flow advantages that have been identified.

3.8.2 The identification of an error in the calculation of the initial credit ceiling as at 1st April 1990 raises the prospects of recalculating the credit ceiling as at 1st April 2003 and recalculating the minimum repayment provision that should have been made during the years 1990/1991 to 2002/2003. The likely effect would be not only to reduce the credit ceiling as at 1st April 2003; but also to reduce the provision for credit liabilities and credit the amount to the general fund and the housing revenue account in appropriate proportions. Such a course of action would, of course, be unusual, and it would be prudent to seek advice as appropriate from the council's legal advisors and external auditors before making these adjustments to the accounts.

3.8.3 It appears that an authority that is indebted on 1st April 2003, but becomes 'debt free' on 31st March 2004 will be entitled to take advantage of the transitional arrangements for the pooling of capital receipts by 'debt free' authorities. However, South Derbyshire District Council would not be able to take advantage of this situation unless it was possible to bring about a negative credit ceiling. An examination of the scope for doing this is outside the scope of the current project, but it is suggested that consideration should be given to this. The following table shows the transactions that give rise to increases or reductions in the credit ceiling and is taken from guidance issued by the Office of the Deputy Prime Minister on the matter.

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Description of Transaction	Credit Ceiling
Credit Approval Used	
As authority not to charge expenditure to revenue	Increase
To enter/vary normal credit arrangement	Increase
Amount set aside as Provision for Credit Liabilities	
Credit cover for excluded credit arrangement	Decrease
Reserved part of capital receipt	Decrease
Usable capital receipt voluntarily set aside	Decrease
Reserved part of notional capital receipt	Decrease
Minimum Repayment Provision re: capital	Decrease
Voluntary revenue set aside	Decrease
European Union Grant	Decrease
Credit cover under local authority companies order	Decrease
Commutation	
Payment to local authority set aside	Decrease
Payment to pwlb reduces debt	Decrease
Payment recovered from local authority	Increase
Provision for Credit Liabilities applied to loss	Increase
Application of Provision for Credit Liabilities	
Expenditure by debtor authority in respect of which Credit approval used as authority not to charge Expenditure to revenue	Increase
Provision for Credit Liabilities applied by debt free Authority for capital expenditure or transferred To another body	Increase
Provision for Credit Liabilities applied to meet LSVT levy	Increase

3.8.4 There will be transitional arrangements for authorities with housing stock that are debt-free when the new system is introduced. For a period of three years, these authorities may receive up to a given proportion (75%, 50%, and 25% in successive years) of their share of the total capital receipts which the Office of the Deputy Prime Minister estimates will be paid into the pool by debt-free authorities. This share will be earmarked for housing. For example, if in 2004/2005, an authority contributes £2.5m out of a total of £120m of pooled receipts from debt-free authorities, they will be able to receive back £1,875,000, provided they use this money for housing. In year 2005/2006 - assuming the same level of receipts into the authority - they would receive back £1.25m for housing, and in 2006/2007 £625,000. This will be in addition to any other resources they may be allocated by the Regional Housing Boards. A total of £90m will be made available for this scheme in year one, up to £60m in year two, and up to £30m in year three.

3.8.5 If it proves to be possible to take advantage of the transitional arrangements for debt free authorities, this would be potentially significant for South Derbyshire District Council. The council currently receives approximately £4million in capital receipts a year of which 75% are set-aside. Under the transitional arrangements for debt free authorities there would be a facility to retain the following proportions of capital receipts, rather than paying them into the capital receipts pool:

	Receipts £,000	Pooled £,000	Transition Percentage	Transition £,000
2004/2005	4,000	3,000	75%	2,250
2005/2006	4,000	3,000	50%	1,500
2006/2007	4,000	3,000	25%	750
2007/2008	4,000	3,000	0%	0

3.8.6 The Net Present Value of the relief would therefore be as follows:

	Transition £,000	Discount	Net Present Value £,000
2004/2005	2,250	0.966	2,173
2005/2006	1,500	0.934	1,401
2006/2007	750	0.902	676
Total	4,500		4,250

3.9 Conclusions

3.9.1 The analysis that has been carried out by myself and by officers of South Derbyshire District Council suggests that, even if all public works loans fund debt were to be repaid during 2003/2004, South Derbyshire District Council would not achieve 'debt free' status as the credit ceiling would remain positive. As a result there would still be a requirement to make a minimum repayment provision in the general fund. However, the discounted cash flow analysis shows that repayment of these debts would be in the long-term financial interests of South Derbyshire District Council.

3.9.2 Officers of South Derbyshire District Council have identified errors in the calculation of the credit ceiling in 1990. This has led to the council setting aside more in minimum repayment provision than was actually necessary during each year since 1990/1991. It may be appropriate to consider returning this minimum repayment provision to the general fund. An assessment of the potential for this is outside the scope of this report, but it is recommended that consideration be given to this matter by the Chief Financial Officer.

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3.9.3 If a means could be found to bring about a negative credit ceiling, South Derbyshire District Council would be able to achieve 'debt free' status. This would have two advantages. Firstly, there would be no need to make a minimum repayment provision. Secondly, the authority would benefit from the transitional arrangements for capital receipts pooling that are available to 'debt free' authorities. An assessment of the potential for this is outside the scope of this report, but it is recommended that consideration be given to this matter by the Chief Financial Officer.

4. Conclusions and Recommendations

4.1 In summary, there does appear to be a strong business case for repaying the Council's Public Works Loans Board debt. This would reduce a significant liability in the Council's General Fund on an on-going basis. The principal argument for not doing so, would be if there was an expectation that long-term rates of interest would rise above 4.7%.

4.2 **My recommendation is that the Chief Financial Officer should consider the early repayment of debt as outlined in the Finance Services Manager's report of 21st November 2003 and this report, and advise the Council accordingly. I would also advise that consultation should be carried out, as appropriate, with the council's legal advisors and external auditors.**

4.3 **I also recommend that the Chief Financial Officer consider whether it would be appropriate to consider returning any excess minimum repayment provision to the general fund; and whether any potential exists for bringing about a negative credit ceiling by 31st March 2004.**

Appendix 1 – List of Loans

No.	Loan Reference	Years O/S	Loan Rate %	Amount O/S £	Penalty Pay't £
1	101 445014 0	9	12.88%	75,000	45,186
2	101 446966 0	16	14.75%	50,000	55,214
3	101 448879 0	17	14.00%	100,000	106,115
4	101 449545 0	5	13.63%	203,704	47,267
5	101 449546 0	18	13.63%	100,000	105,470
6	101 451916 0	19	11.00%	150,000	114,591
7	101 451917 0	12	11.25%	56,818	19,301
8	101 454131 0	6	10.38%	125,000	21,688
9	101 454132 0	12	10.25%	250,000	123,589
10	101 455794 0	21	10.75%	150,000	116,562
11	101 455795 0	7	11.00%	100,962	21,839
12	201 468435 0	26	11.50%	100,000	98,297
13	301 471691 0	19	10.00%	1,781,112	1,127,448
14	301 471692 0	19	10.00%	118,888	75,256
15	501 479305 0	14	8.00%	775,000	247,031
16	101 481013 0	23	5.88%	500,000	70,989
17	101 481014 0	24	5.88%	500,000	72,612
18	401 483087 0	35	5.13%	1,400,000	64,898
19	301 485381 0	22	4.88%	1,451,506	4,927
20	301 485382 0	22	4.88%	48,494	165

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Appendix Two – Comparison of retaining and repaying debt using discounted cash flow at a discount rate of 3.5%.

Year	TOTAL INTEREST £	TOTAL PRINCIPAL £	TOTAL CASHFLOW	HRA £	NET OUTFLOW/(INFLOW) £	NPV AT 3.5% £
31/03/2005	623,736	74,274.57	698,010.17	54,514.59	643,496	621,735
31/03/2006	614,702	74,274.57	688,976.57	53,809.07	635,167	592,936
31/03/2007	605,668	74,274.57	679,942.97	53,103.55	626,839	565,373
31/03/2008	596,635	74,274.57	670,909.37	52,398.02	618,511	538,997
31/03/2009	587,601	74,274.57	661,875.77	51,692.50	610,183	513,758
31/03/2010	578,568	37,237.57	615,805.17	48,094.38	567,711	461,833
31/03/2011	574,580	18,006.90	592,587.15	46,281.06	546,306	429,392
31/03/2012	572,588	4,545.40	577,133.50	45,074.13	532,059	404,052
31/03/2013	569,696	79,545.40	649,241.15	50,705.73	598,535	439,164
31/03/2014	561,909	4,545.40	566,454.54	44,240.10	522,214	370,208
31/03/2015	561,398	4,545.40	565,943.18	44,200.16	521,743	357,366
31/03/2016	554,568	254,545.40	809,113.33	63,191.75	745,922	493,638
31/03/2017	534,750	0.00	534,750.00	41,763.98	492,986	315,217
31/03/2018	509,101	775,000.00	1,284,100.68	100,288.26	1,183,812	731,338
31/03/2019	472,750	0.00	472,750.00	36,921.78	435,828	260,142
31/03/2020	470,932	50,000.00	520,931.51	40,684.75	480,247	276,961
31/03/2021	461,923	100,000.00	561,922.95	43,886.18	518,037	288,652
31/03/2022	448,015	100,000.00	548,015.41	42,800.00	505,215	271,988
31/03/2023	322,805	2,050,000.00	2,372,804.79	185,316.05	2,187,489	1,137,835
31/03/2024	231,250	0.00	231,250.00	18,060.63	213,189	107,142
31/03/2025	227,274	150,000.00	377,273.97	29,465.10	347,809	168,886
31/03/2026	208,914	0.00	208,914.38	16,316.21	192,598	90,358
31/03/2027	134,757	2,000,000.00	2,134,756.85	166,724.51	1,968,032	892,081
31/03/2028	105,382	500,000.00	605,381.85	47,280.32	558,102	244,425
31/03/2029	83,250	0.00	83,250.00	6,501.83	76,748	32,476
31/03/2030	81,391	100,000.00	181,391.10	14,166.64	167,224	68,368
31/03/2031	71,750	0.00	71,750.00	5,603.68	66,146	26,129
31/03/2032	71,750	0.00	71,750.00	5,603.68	66,146	25,245
31/03/2033	71,750	0.00	71,750.00	5,603.68	66,146	24,391
31/03/2034	71,750	0.00	71,750.00	5,603.68	66,146	23,567
31/03/2035	71,750	0.00	71,750.00	5,603.68	66,146	22,770
31/03/2036	71,750	0.00	71,750.00	5,603.68	66,146	22,000
31/03/2037	71,750	0.00	71,750.00	5,603.68	66,146	21,256
31/03/2038	71,750	0.00	71,750.00	5,603.68	66,146	20,537
31/03/2039	71,750	1,400,000.00	1,471,750.00	114,943.68	1,356,806	407,011
TOTALS	11,939,892	7,999,344.32	19,939,236	1,557,254	18,381,982	11,267,222

Repayment of debt

Principal	£7,999,344	Less HRA	£823,001
Premium	£2,538,447		
Total	£10,537,791	Net Present Value	£9,714,790

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Company Number: 3713554. VAT Registration Number: 721 9669 13

Appendix Three – Comparison of retaining and repaying debt using discounted cash flow at a discount rate of 4.7%.

Year	TOTAL INTEREST £	TOTAL PRINCIPAL £	TOTAL CASHFLOW	HRA £	NET OUTFLOW/(INFLOW) £	NPV AT 4.7%
31/03/2005	623,736	74,274.57	698,010.17	54,514.59	643,496	614,609
31/03/2006	614,702	74,274.57	688,976.57	53,809.07	635,167	579,422
31/03/2007	605,668	74,274.57	679,942.97	53,103.55	626,839	546,155
31/03/2008	596,635	74,274.57	670,909.37	52,398.02	618,511	514,708
31/03/2009	587,601	74,274.57	661,875.77	51,692.50	610,183	484,983
31/03/2010	578,568	37,237.57	615,805.17	48,094.38	567,711	430,970
31/03/2011	574,580	18,006.90	592,587.15	46,281.06	546,306	396,104
31/03/2012	572,588	4,545.40	577,133.50	45,074.13	532,059	368,457
31/03/2013	569,696	79,545.40	649,241.15	50,705.73	598,535	395,886
31/03/2014	561,909	4,545.40	566,454.54	44,240.10	522,214	329,900
31/03/2015	561,398	4,545.40	565,943.18	44,200.16	521,743	314,806
31/03/2016	554,568	254,545.40	809,113.33	63,191.75	745,922	429,866
31/03/2017	534,750	0.00	534,750.00	41,763.98	492,986	271,349
31/03/2018	509,101	775,000.00	1,284,100.68	100,288.26	1,183,812	622,342
31/03/2019	472,750	0.00	472,750.00	36,921.78	435,828	218,834
31/03/2020	470,932	50,000.00	520,931.51	40,684.75	480,247	230,313
31/03/2021	461,923	100,000.00	561,922.95	43,886.18	518,037	237,283
31/03/2022	448,015	100,000.00	548,015.41	42,800.00	505,215	221,022
31/03/2023	322,805	2,050,000.00	2,372,804.79	185,316.05	2,187,489	914,027
31/03/2024	231,250	0.00	231,250.00	18,060.63	213,189	85,081
31/03/2025	227,274	150,000.00	377,273.97	29,465.10	347,809	132,575
31/03/2026	208,914	0.00	208,914.38	16,316.21	192,598	70,117
31/03/2027	134,757	2,000,000.00	2,134,756.85	166,724.51	1,968,032	684,319
31/03/2028	105,382	500,000.00	605,381.85	47,280.32	558,102	185,350
31/03/2029	83,250	0.00	83,250.00	6,501.83	76,748	24,345
31/03/2030	81,391	100,000.00	181,391.10	14,166.64	167,224	50,662
31/03/2031	71,750	0.00	71,750.00	5,603.68	66,146	19,140
31/03/2032	71,750	0.00	71,750.00	5,603.68	66,146	18,281
31/03/2033	71,750	0.00	71,750.00	5,603.68	66,146	17,460
31/03/2034	71,750	0.00	71,750.00	5,603.68	66,146	16,677
31/03/2035	71,750	0.00	71,750.00	5,603.68	66,146	15,928
31/03/2036	71,750	0.00	71,750.00	5,603.68	66,146	15,213
31/03/2037	71,750	0.00	71,750.00	5,603.68	66,146	14,530
31/03/2038	71,750	0.00	71,750.00	5,603.68	66,146	13,878
31/03/2039	71,750	1,400,000.00	1,471,750.00	114,943.68	1,356,806	271,884
TOTALS	11,939,892	7,999,344.32	19,939,236	1,557,254	18,381,982	9,756,476

Repayment of debt

Principal	£7,999,344	Less HRA	£823,001
Premium	£2,538,447		
Total	£10,537,791	Net Present Value	£9,714,790

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Appendix Four - Comparison of retaining and repaying debt using discounted cash flow at a discount rate of 3.5% - by loan

Discount Rate 3.5%	445014	446966	448879	449545	449546	451916	451917	454131	454132	455794	455795	468435	471691	471692	479305	481013	4810
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
NPV per loan	126,745	116,981	230,915	237,144	231,737	302,119	78,064	140,748	408,887	307,910	119,773	234,363	3,314,267	221,225	1,140,007	682,209	687,5
Principal	75,000	50,000	100,000	185,185	100,000	150,000	54,545	115,384	250,000	150,000	94,231	100,000	1,781,112	118,888	775,000	500,000	500,(
Premium	45,186	55,214	106,115	47,267	105,470	114,591	19,301	21,688	123,589	116,562	21,839	98,297	1,127,448	75,256	247,031	70,989	72,6
Total Payment	120,186	105,214	206,115	232,452	205,470	264,591	73,846	137,072	373,589	266,562	116,070	198,297	2,908,560	194,144	1,022,031	570,989	572,6
Net Saving	6,559	11,766	24,800	4,691	26,267	37,529	4,217	3,676	35,298	41,348	3,703	36,066	405,707	27,081	117,976	111,220	114,9

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