

## Public Investment Finance Forward-starting fixed interest rate loans to Council £ 20 million

February 2016

### £20 million loan towards Midlothian Council

In February 2016, pbb Deutsche Pfandbriefbank signed a transaction with a UK local authority, providing two forward-starting fixed interest rate loans totalling £20 million to Midlothian Council. Located in the South of Scotland, bordering Edinburgh, Midlothian County is one of 32 councils Scotland and has population of around 86.000. Like all councils in Scotland, Midlothian is a unitary authority which is responsible for all local government functions within its area. Midlothian will use the proceeds of the loans to refinance its loans pool and to repay existing debt which was utilised to finance long-term investments in vital services including new schools, social housing, utilities (including waste management), health and care facilities.

Given such product did not exist in the market and there were no precedence used to structure the loans, pbb's expertise was absolutely key in closing the transactions.

### Forward-Starting-Loans for local authorities in the UK

Forward-starting-loans are agreed in advance, at a fixed interest rate, for delivery on a pre-determined future date. They provide certainty to local authorities on the financing cost of future capital expenditure. These loans are of particular interest to local authorities in the UK, where councils approve capital plans which stretch out to five years and many have accumulated significant short term borrowing and "internal borrowing" to fund such capital plans. At some point, many local authorities may wish to refinance with long term borrowing fixing interest rates.

It is also relevant as UK local authorities from time to time fund large capital projects on balance sheet. Councils can therefore use cash or short term funding to fund the project's construction phase and at the same time fix the interest rate for the project's operating phase by signing a forward-starting-loan with pbb.

In this way, the council can minimise the interest rate risk associated with funding the project with short term borrowing and also minimise the negative carry associated with long term borrowing during the construction period. pbb's forward-starting-loan can save money and decrease interest risk for councils and therefore it is a unique tool in the local authority treasurer's tool box.

### Transaction demonstrates financing expertise

The financing solution for Midlothian Council is an example of a specific set of skills and experience and demonstrates pbb's unique understanding of local authorities. Structuring the Midlothian loans was challenging given that the Council required a loan maturing in approximately 30 years from the signing date, a utilisation or predetermined draw down date in two to three years from signing date in addition to competitive fixed rate and fees in comparison to the Public Works Loans Board (PWLB). Given the tight margins available, pbb was required to conduct a significant part of the required legal due diligence in house.

### Opportunities for Public Investment Finance lender

pbb believes that the UK market offers opportunities for a specialist lender focusing on public investments. The current marketplace enables local authorities to pursue more innovative and competitive financing arrangements making it attractive to specialist lenders with in-depth knowledge.

pbb can offer UK local authorities many years of experience and know-how in funding public sector projects in mainland Europe. The bank offers a broad range of products and services for the public sector which provide certainty and savings to local authorities.

## Vast experience as public finance lender

pbb is a specialist lender for real estate and public investment finance. The bank's strategic portfolio in public investment finance amounts to € 7.3 billion (as of 31/03/2016). In 2015, pbb's new business in this sector increased to €1.6 billion.

pbb has identified three key areas in which the bank will take an active role in public investment finance:

- **Traditional public investment finance**
  - pbb offers financing solutions for the funding of public sector facilities (administrative and special purpose facilities, educational and cultural establishments, and sport facilities), municipal and residential construction (council housing, apartment building companies, student housing), utilities (energy, water, waste, recycling & environment), health and age (hospitals, medical and geriatric care facilities as well as administration and insurance facilities) and other essential infrastructure.
  - The bank has vast experience of financing complex public/private sector partnerships for infrastructure projects in which private sector partners lead the design,

construction, operation and financing of a public investment. pbb's experience across European markets allows us to offer tailor made solutions to fulfil the objectives set by public sector clients.

- **ECA finance** – export finance, where there is export credit insurance coverage
- **Finance Lease** – pbb can offer a range of leasing arrangements in which the bank is typically the legal owner of the asset during the financing period, while leaving operating control and the economic risks and returns in relation to the valuation of the underlying property/asset with the lessee. The product is at the crossroads between public investment finance and real estate finance business and offers a solution where conventional funding arrangements do not always apply. This product primarily targets clients in France and the Nordic Countries.

The bank is able to offer one-stop-shop structures and has the ability to underwrite and syndicate large volumes and long maturities.

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