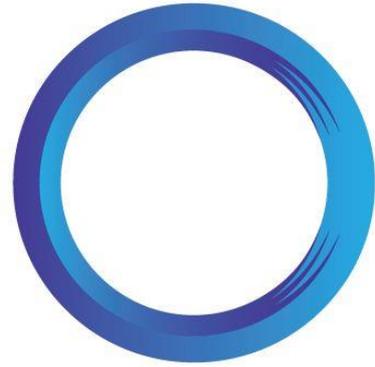




Finalysis

A leading independent banking and treasury consultancy



Oldham College

Project Finance Facility – Savings Evaluation

Background

Following the adoption of a Capital Estates Strategy, Oldham College had a requirement to increase its borrowing to assist with the funding of potentially four new projects. They were as follows:

- **Project 1** The construction of a new building the 14-19 Learning Hub (building A) - **£7m**
- **Project 2** The construction of a new building the Innovation Hub (building B) - **£9m**
- **Project 3** The acquisition and refurbishment of Oldham Business Centre - **£4m**
- **Project 4** A further new build - **£6m**

The initial funding requirement was for Projects 1 and 2, where a project finance facility of up to £6m was required.

The College received two offers, one from its incumbent bank, and the other from a competing Bank, which has no existing relationship with the College.

The offers were evaluated by Finalysis, after which both Banks were asked to present their offers at a meeting with the College. Finalysis negotiated on behalf of the College in order to ensure value for money was obtained.

A summary of the offers and the results of negotiation can be seen in the below table.

Offers

| Item | Bank A | Bank A - Revised (Post Negotiation) | Incumbent Bank | Incumbent Bank - Revised (Post Negotiation) |
|---------------------|---|---|---|---|
| Amount | £6m Convertible Revolving Credit | £6.7m Convertible Revolving Credit | £6.7m Convertible Revolving Credit | No revisions offered |
| Term (Years) | 3 Years revolving followed by 13 year term facility (max term 16 years) | No Change | Option A - 2 Years revolving, followed by 3 year Term Loan with 12 month extension(s) option Max initial commit = 5 yrs Option B - 2 Years revolving, followed by 7 year Term Loan with 12 month extension(s) option Max initial commit = 10 yrs | |
| Interest Margin | 1.70% | 1.60% | Option A - 1.45% Option B - 1.85% | |
| Interest Period(s) | 1,3, 6 or 12 months | No Change | 3, 6, 9 or 12 months | |
| Non-Utilisation Fee | 0.50% on a draw down ratchet | No Change | Option A - 0.58% Option B - 0.58% | |
| Arrangement Fee | 0.50% | Inclusion of a £5,000 rebate | Option A - 0.60% Option B - 0.75% | |
| Repayment | Interest only during 3 year revolving period followed by 13 year quarterly capital repayments based on notional 22-year profile | No Change | Interest only for first 2 years, followed by a repayment profile (notional) over 25 years | |

From the above it can be seen that only Bank A offered any revisions. The impact of these was as follows:

- Margin reduction – 1.70% to 1.60% - saving of £46,049 over the term
 - Arrangement Fee – Inclusion of a £5,000 rebate to be used either against legal costs or a CSR initiative.
- Total Reductions = **£51,049**

The final offers were therefore:

Final Offers

| | Maximum Committed Term | Margin | Arrangement Fee | Non Utilisation Fee |
|--|------------------------|----------------------------------|------------------------|-----------------------|
| Incumbent Bank | 10 Years | 1.85% | 0.75% | 0.58% |
| Bank A | 16 Years | 1.60% | 0.50% | 0.50% |
| Saving | | 0.25% - Estimate £77,706* | 0.25% - £16,750 | 0.08% - £2,883 |
| Total Savings of Bank A offer compared to incumbent Bank offer | £97,339 | | | |

**Interest calculations Based on Like for Like Comparison over a 10-year facility*

Additional Benefits from RFP exercise

- Bank A increased its offering from £6m to £6.7m to include a refinance requirement
- Bank A offered 1-month interest periods – slightly lower LIBOR rate can yield small savings for the College during the Revolving Credit period
- Longer committed term available – 16 years' v 10 years

In going to the market as opposed to dealing bilaterally with the incumbent Bank, the College was able to prove not only to the board that the appropriate process has been undertaken to assess the options available, but also ensure value for money had been obtained by realising close to £100k of savings over the term of the facility.

Finalysis fees were covered many times over by the process, after which the College was happy to supply the following testimonial

“Finalysis provided the College with invaluable advice on our tender for substantial borrowing from the banking sector. Their in-depth knowledge of how banks price their tenders and negotiate agreements enabled the College to seal a very good agreement with the Bank They worked with me to advise the executive team on the significant detail in the agreement whilst also being able to present an overview to the College governors.”