

APPENDIX 2

Report to Cabinet and City Council 10th and 15th July 2014

Hampshire Community Bank Financial Appraisal

SUMMARY

NOTE	Description	£ Million
1	Total amount invested by PCC over ten years	5.00
	Cash amount paid to PCC by the Hampshire Community Bank (HCB) over 10 years	
2	- 6% as HCB initial Business Plan and Financial Model	3.45
3	- 4% assuming a reduced performance by HCB	2.07
4	Net Present Value of Capital and Revenue Cash Flows over 10 years	
	- 6% as HCB initial Business Plan and Financial Model	1.16
	- 4% assuming a reduced performance by HCB	0.19

NOTES

- 1 PCC payment to an escrow account assumed to be on 1st October 2014
- 2 HCB assumed to pay nothing for the first two years, then a return of 5% in each of the next seven years followed by a final payment in year ten to bring total payments up to the equivalent of a 6% return per annum.
- 3 HCB assumed to pay nothing for the first two years, then a return of 5% in each of the next seven years followed by a final payment in year ten to bring total payments up to the equivalent of a 4% return per annum.
- 4 A technique called Discounted Cash Flow has been used to show at current values how the returns from this proposal, which involves some risk, compare with those the City Council could obtain from lending to "risk free" borrowers. The values shown represent the value at current prices of the extra income the HCB investment could yield above that PCC could obtain from "risk free" borrowers.

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All calculations are at current prices

PCC investment is assumed to be in one payment to an escrow account on 1st October 2014 (Year 0) of the following amount: **£5,000,000**

PCC investment is assumed to be repaid by HCB at the end of the 10 year period on 31 March 2025

HCB are assumed to pay PCC a dividend annually of: **5.00%**

HCB are also assumed to pay PCC a bonus at the end of the ten years bringing the Internal Rate of Return to: **6.00%**

To reflect risk and assess sensitivity to reducing rate of return the effects of HCB only being able to pay PCC a reduced rate of bonus at the end of the ten years is shown reflecting an Internal Rate of Return of: **4.00%**

City Council costs are estimated as:

- In the first year (mainly Due Diligence) **£25,000**
- thereafter at the annual rate of **£1,000**

The scheme is considered a "Spend to Save" project and Due Diligence and other associated revenue costs are financed by a transfer from the Medium Term Resource Strategy Reserve.

The Net Present Value Discount Rate representing the estimated risk-free interest rates achievable for each year is based as follows:

- the 12 month LIBOR rate for the period that the City's Treasury Management plans show cash in hand and invested.
- Thereafter at the current average cost of capital

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A	B	C	D	E	F	G	H	I	J	K	L	M	N
1	CAPITAL EFFECTS	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
2	Year ----->	0	1	2	3	4	5	6	7	8	9	10	
3		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
4	Payment to Hampshire Community Bank (HCB)	5,000,000											5,000,000
5	Repayment from HCB												-5,000,000
6													
7													
8	Net Capital Expenditure/(Income)	£5,000,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
9													
10	REVENUE EFFECTS	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
11		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
12													
13	6% Rate of Return												
14	City Council costs	25,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	35,000
15	LESS - HCB Dividends	£0	£0	£0	-£250,000	-£250,000	-£250,000	-£250,000	-£250,000	-£250,000	-£250,000	-£250,000	-2,000,000
16	Redemption bonus to give 6% Rate of Return												-1,480,000
17													
18	Net Revenue Expenditure/(Income)	£25,000	£1,000	£1,000	-£249,000	-£249,000	-£249,000	-£249,000	-£249,000	-£249,000	-£249,000	-£249,000	-£3,445,000
19													
20	Net Present Value of Capital and Revenue Cash Flows over 10 years at 6% rate of return												
21													
22	4% Rate of Return												
23	City Council costs	25,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	35,000
24	LESS - HCB Dividends	£0	£0	£0	-£250,000	-£250,000	-£250,000	-£250,000	-£250,000	-£250,000	-£250,000	-£250,000	-2,000,000
25	Redemption bonus to give 4% Rate of Return												-100,000
26													
27	Net Revenue Expenditure/(Income)	£25,000	£1,000	£1,000	-£249,000	-£249,000	-£249,000	-£249,000	-£249,000	-£249,000	-£249,000	-£249,000	-£2,065,000
28													
29	Net Present Value of Capital and Revenue Cash Flows over 10 years at 4% rate of return												
30													
31	ESTIMATED FUNDS AVAILABLE FOR DISTRIBUTION BY INVESTORS VIA "GRANTS BOARD"												
32	NOTE - THE FOLLOWING AMOUNTS ARE NOT INCOME TO PCC BUT ARE FUNDS PROVIDED TO THE CHARITABLE "HANTS COMMUNITY BANK FOUNDATION" (SEE REPORT SECTION 8).												
33	THESE FUNDS WOULD BE 50% OF THE PROFITS MADE EACH YEAR BY THE HCB TO BE DISTRIBUTED BY INVESTORS TO SUPPORT IMPORTANT LOCAL CAUSES												
34													
35	Estimated Funds available for distribution	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
36		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
37													
38	Total for distribution - NOTE figures from 2020/21 estimated by PCC	£0	£0	£0	£1,723,000	£2,242,000	£2,610,000	£2,700,000	£2,700,000	£2,700,000	£2,700,000	£2,700,000	£20,075,000