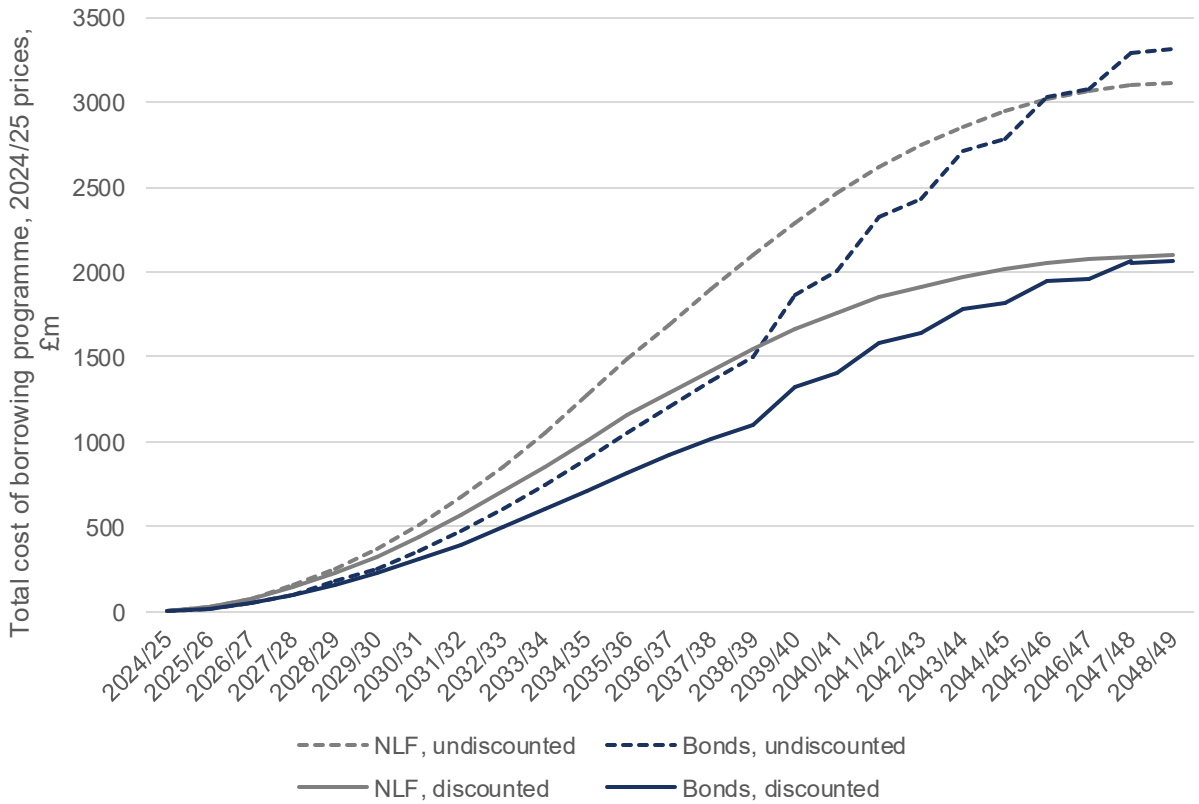
- OUT OF SCOPE

APPROACH TO VALUE FOR MONEY

- Value for money requires considering the costs and benefits of the proposed borrowing approach against our objectives. **A higher cost approach may still represent value for money if it meets our objectives better than the alternatives.**
- In the value for money analysis following the standard Green Book appraisal methods. Costs are based on net present public sector costs of the borrowing options. Costs are compared in real terms, discounted by 3.5% annually for the first 30 years (and 3% thereafter).
- [Redacted] Alternative financial discounting approaches have been considered and may be used in addition to – but not instead of – the Green Book method. This could include:
  - [Redacted]
  - [Redacted]
- [Redacted]

EXAMPLE CASE – BONDS VS. NLF BORROWING

Total cost of a 10 year programme of borrowing £300m p.a.: NLF compared to biennial bond issuance
(15 year tenor, 3.5% benchmark gilt rate and 50bps spread)



- Due to differences in repayment profiles, bonds will have lower costs in the short term, but higher costs once bonds begin maturing and the principal is repaid.
- [Redacted]
- But the discounted (i.e. present value) cost of a bond can be lower than NLF borrowing. Whether it is dependent on spread, tenor and the benchmark gilt rate.

[REDACTED]

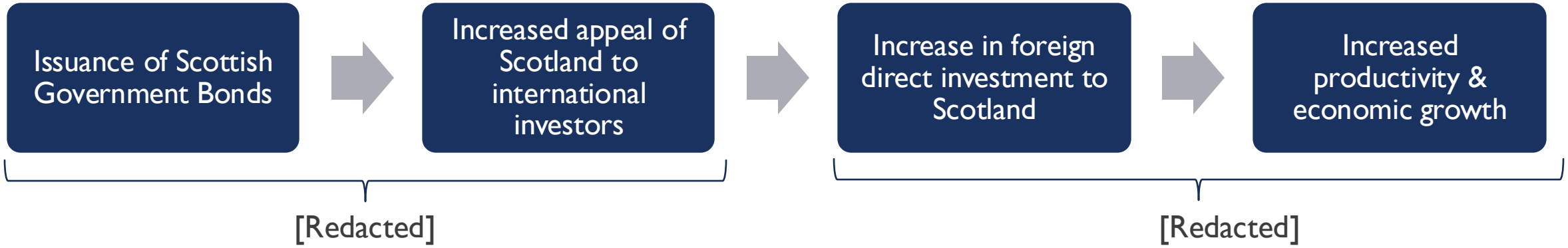
[Redacted]	[Redacted]	
	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]		
[Redacted]		

- [Redacted]

QUANTIFYING ECONOMIC BENEFITS

[Redacted]

Logic chain for economic benefits



- OUT OF SCOPE

4. VALUE FOR MONEY

We have summarised the value-for-money assessment as follows (more detail is provided in the Annex A)

- In the right market conditions a positive value for money case could be achieved based on a Bond being a lower (present value) cost form of borrowing than the NLF, irrespective of any economic benefits. This is due to the time value of principal repayments on bonds occurring at maturity – a structure unavailable to the SG through the NLF.
- In unfavourable market conditions there could also be a positive value for money case for a bond depending on the scale of economic benefits.
- [Redacted]
- [Redacted]

A.1 VALUE FOR MONEY - APPROACH

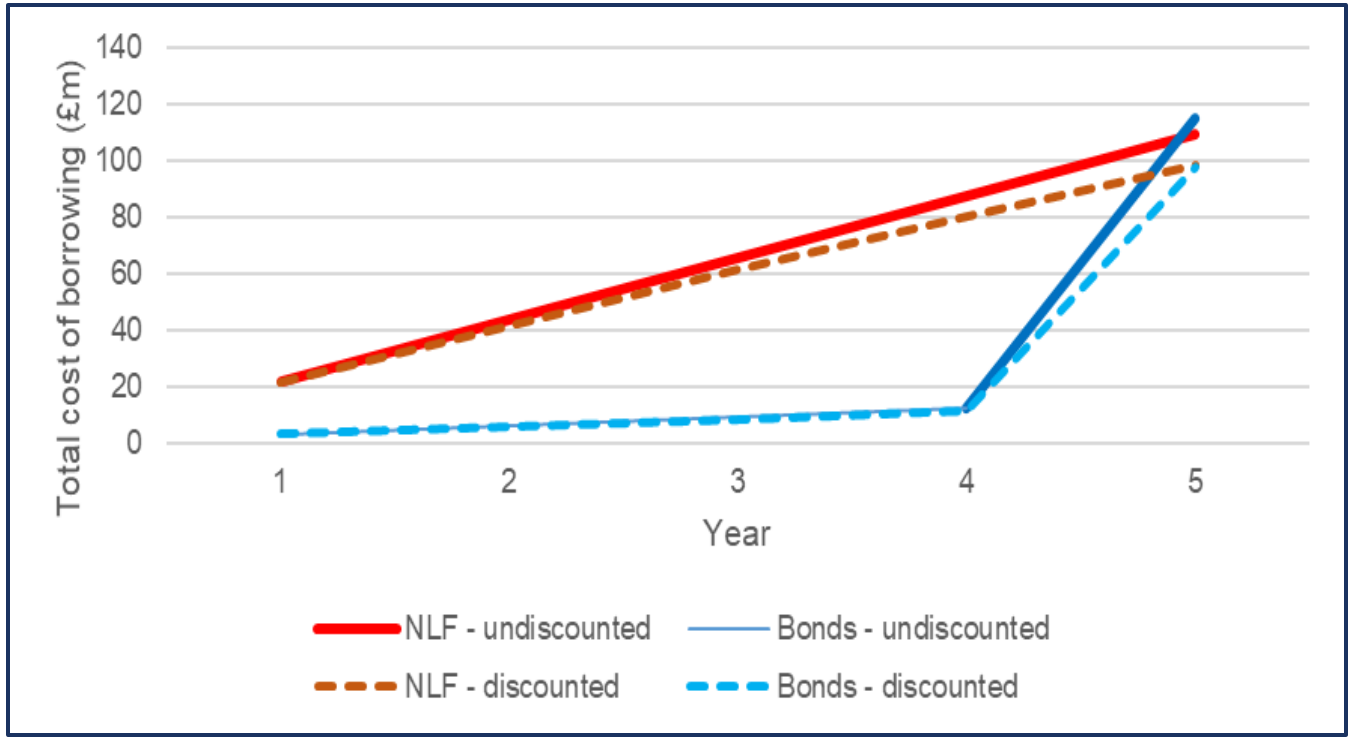
- Value for money assessments will follow the standard Green Book appraisal methods.
- Specifically, this will consider the economic benefits as outlined by the investor panel recommendation and the net present public sector costs of changing our source of borrowing from the NLF to borrowing through bond issuance(s).
- All costs are considered - both up-front costs and ***changes*** to direct borrowing costs.
- All costs are considered on a discounted basis. This allows time-value of money to be considered on an equitable basis.
- [Redacted]

A.2 VALUE FOR MONEY - COSTS

- [Redacted] However, with bonds (in their usual structure) principal is not repaid until the final year; in contrast to NLF where the principal is repaid continuously. Bonds therefore generate cash savings in the short term, [Redacted]
- [Redacted]
- Value for money analysis considers the present value cost of different options - giving more weight to costs and benefits in the short-term than those in the long-term.
- **Bonds could have a lower present value cost than equivalent borrowing through the NLF.** This is dependent on both market interest rates, [Redacted]
- [Redacted]
- Our initial analysis suggests that [Redacted]
- [Redacted]

A.2 VFM– COSTS (ILLUSTRATIVE EXAMPLE)

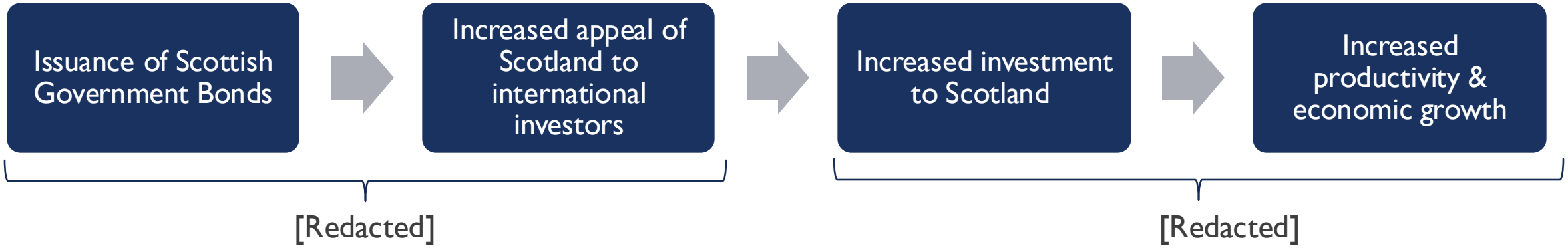
- [Redacted]
- [Redacted]
- Essentially the primary **fiscal** benefit of bonds versus the NLF is the time-value of money.



A.3 VALUE FOR MONEY - BENEFITS

[Redacted]

Logic chain for economic benefits



A.4 VALUE FOR MONEY – ASSESSMENT

- UK Gilt Yields are currently c3.8% at the 10y tenor rising to 4.3% at the 30 year tenor.
- [Redacted]