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HFMA Briefing

Working Capital Facility Survey Report

September 2011

During August and September of 2011, the HFMA conducted a survey of foundation trust finance directors in relation to current working capital facility arrangements. In total more than 55 organisations from the HFMA's FT Finance Faculty took part with annual turnovers in 2010/11 ranging from £32 million to £804 million.

This survey was initiated by the HFMA's Foundation Trust Technical Issues Group and it was agreed to survey a wide audience to identify the key issues encountered with the set up and operation of working capital facilities. It is envisaged that the combined responses will facilitate any individual re-negotiations of working capital facilities and support further discussions within the faculty. It is also anticipated that the survey will be undertaken annually to maintain the body of information available to members.

Not all organisations answered every question and the percentages referred to are percentages of respondents answering that specific question. (Some tables may not add up to 100% due to rounding.)

Turnover

The turnover of the organisations responding to the survey can be seen in the table below:

Turnover	Outturn 2010/11	Planned 2011/12
<£100m	19%	11%
£100<£200m	35%	35%
£200<£300m	25%	31%
£300<£400m	14%	15%
£400m	6%	8%

Liquidity

The survey asked respondents to identify the level of liquidity (in days) contained within 2011/12 annual plans (for the lowest quarter of 2011/12) *excluding* the working capital facility (WCF) and produced the following results:

Planned liquidity 2011/12	Response Percent
<10 days	46%
10<15 days	8%
15<25 days	18%
25<60 days	26%
>60 days	2%

Over half of respondents would have a planned liquidity sufficient to deliver a risk rating of 2 for liquidity without a WCF in place. This rating would then require them to be (at least) subject to monthly cash monitoring, and may (in conjunction with the other metrics) trigger a financial risk rating of 2 over-all, resulting in Monitor intervention.

It can be seen that 28% of the survey (17 organisations) have a WCF in place although they plan a level of liquidity of at least 25 days excluding the WCF. Of these 17 organisations, 15 have a planned liquidity in excess of 30 days.

Prudential borrowing limits and working capital facilities

Of those respondents identifying both the prudential borrowing limits (PBL) and the WCF in place for 2010/11, 57% of organisations used only the WCF part of their PBL. This has increased to 67% for 2011/12. The largest WCF in place amounted to £60m (2010/11 and 2011/12).

Of those organisations with a WCF accounting for more than 35% of the PBL, a small number had facilities accounting for more than half of their PBL in both years.

Draw down of working capital facility

The survey asked if the WCF had been drawn down during 2010/11 and also if a draw down was anticipated in 20111/2. In both instances only one organisation (but differing by year) said that draw down was or likely to be necessary.

Working capital facility terms

The survey asked respondents to identify the length of WCF agreements in place. Of the organisations who responded to this question, more than half had negotiated a year-long agreement. The results are summarised in the table below:

How long is the term for your working capital facility (i.e. when you took it out, how long was it put in place for)?	Response Percent
364 days	3%

1 year	56%
2 years	31%
3 years	2%
Other (please specify)	8%

Charges

When asked the charge which applied when the organisation set up its WCF, the following results were produced:

Basis points	**Response Percent**
<20	0%
20<30	4%
30<40	67%
40<50	13%
>50	16%

Results ranged from 20 to 75 basis points with 67% or respondents charged between 30 and 40 basis points. One organisation responded at 0%.

From the sample, Barclays appears to offer the widest range of charges as can be seen in the table below:

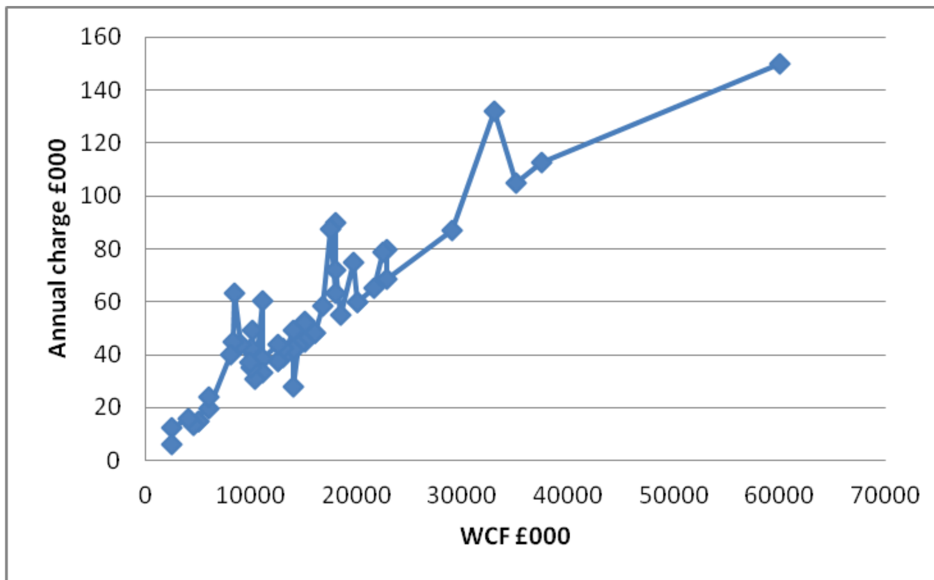
Bank providing WCF	**Range of charge (basis points)**
NatWest	30-58
Barclays	20-75
Lloyds/TSB	30-75
RBS	25-55

Of the top ten most expensive facilities from the sample, the split across providers was as follows:

Bank providing WCF	**No.**
NatWest	4
Barclays	3
RBS	2

Lloyds/TSB	1

The total annual charge for working capital facilities covered by the sample amounted to £3.5 million for a total facility over all organisations of £900 million. Annual charges ranged from £6k to £150k; the results are shown in the graph below:



The results by facility provider are included at appendix 1 to the report. The survey did identify a small number of 'outlying' organisations, including those where the charges for the WCF were spread over a two year period.

Cost of funds

94% of organisations responding (to the relevant question) did not face a charge if the WCF was not drawn down or accessed other than the annual charge or arrangement fee. However, the charge for accessing the facility in most cases is 1-2% above the bank base rate or LIBOR, whichever applies. One organisation incurred a higher rate if it were to access the WCF without prior arrangement.

Respondents were asked to identify the basis for the interest rate payable on accessing WCFs. The results were as follows:

Basis for cost of funds	**Response Percent**
Bank base rate	46%
LIBOR	54%

Comments included:

'We can chose either LIBOR or Bank Base Rate on each draw down.'

'Aggregate of 0.6%, Offered Rate (LIBOR) and Associated Costs Rate (costs associated with complying with liquidity, monetary control or prudential requirements of the Bank of England or the Financial Services Authority).'

'Either a LIBOR facility or a base rate facility to be determined at draw down. The LIBOR facility is 2.5% above LIBOR at date of drawdown. The base rate facility is 2.5% above the bank's base rate.'

'LIBOR plus 1% plus Mandatory Cost incurred by the bank.'

'May increase if there are additional mandatory costs.'

Only 6% of organisations responding have a choice as to how the rate used is calculated when drawing on the facility.

Provider of banking services

Of the organisations which identified the bank providing their WCF, the survey produced the following results:

Bank providing WCF	**Response Percent**
NatWest	18%
Barclays	45%
Lloyds/TSB	29%
RBS	8%

Respondents were asked whether the bank providing the trust's WCF also provided commercial and/or deposit/ investment services. The results were as follows:

Bank *also* providing	**Response Percent**
Commercial banking services only	14%
Deposit/ investment banking services only	28%
Both commercial and deposit services	42%
Neither	16%

The additional comments provided by respondents suggested that agreements cover a range of individual services as well as influencing the annual charge for the WCF itself:

'Includes some credit card facilities - receipts and payments.'

'Price is dependent on this.'

'We have an informal arrangement whereby we maintain our cash balances within their deposit accounts for a reduced cost of the facility.'

'Commitment to deposit cash with them reduced the arrangement fee.'

'We have an instant access account that we use for deposits of surplus operating cash - interest rate 0.8%.'

For some organisations, the charges attached to the WCF are *dependent* on them taking other services from the WCF provider. The survey revealed the following:

Are any of the charges/rates levied for the working capital facility contingent on the FT having other services with the facility provider?	**Response Percent**
Commercial banking services	29%
Deposit/ investment banking services	29%
WCF independent of other banking arrangements	42%

A number of additional comments were received here including:

'Bank would not consider just providing a WCF without transferring transactional banking services.'

'We have to have a current account, but not necessarily use it.'

'The arrangement fee is reduced by 25 basis points if we keep 50% of WCF amount on deposit.'

'No direct correlation but it was indicated that existing customers could expect more favourable rates.'

'Whilst the facility is not contingent on having other services we have obtained a lower fee through placing deposit monies with the bank.'

For those organisations agreeing to keep money on deposit as part of their WCF arrangement, the following comments were received:

'We should keep £7m on deposit, however, Nat West have had a flexible approach to this in practice and the amount is not included in the Working Capital Letter - we have simply agreed it with them.'

'No specific amount agreed but there was an expectation that funds would be placed on deposit for part of the year and £5m has been placed twice during the year for three months each time.'

'An average daily balance of at least 50% of the facility.'

The survey identified that 20% of respondents had their current WCF contract with a new provider. The remaining respondents to this question had extended their previous working capital facility arrangements and 74% of respondents had had the same working capital facility provider since authorisation.

The survey asked about the reporting of default clauses to Monitor other than those recognised as 'acceptable' in Monitor's in-year reporting guidance. The following results were received:

Have you reported any default clauses to Monitor?	Response Percent
Yes	6%
No	94%

The following comment was received:

'We asked, and the bank agreed, to remove non standard default clauses.'

The purpose of a working capital facility

The survey went on to ascertain what the sample organisations believed to be the core reasons for having a WCF (as respondents were asked to confirm all options which applied, the response percentage exceeds 100):

Which of the following would you identify as reasons for having your working capital facility?	Response Percent
To provide real protection against a shortage in cash	45%
To boost liquidity rating/financial risk rating	73%
To meet what is seen effectively as a Monitor 'requirement'	73%

Additional comments included:

'We dropped the WCF a couple of years ago and it felt like (perhaps wrongly) it was perceived as 'negative'.'

'As the FT does not have significant cash reserves, the WCF provides real protection.'

'WCF provides expensive 'headroom' to maintain liquidity rating.'

The survey went on to ask if organisations had considered stopping their WCF with the following response:

Have you considered stopping your working capital facility?	Response Percent
Yes	37%
No	63%

For the 37% of respondents who answered yes, they were then asked why they subsequently kept the WCF in place. The comments received included the following:

'Risk management to provide protection in the event of a short term shortage of cash.'

'The belief that in the event the Trust did need to put it back in place, then the facility would be harder to obtain and probably more expensive.'

'The Trust has retained its working capital facility in order to achieve an appropriate FRR with Monitor.'

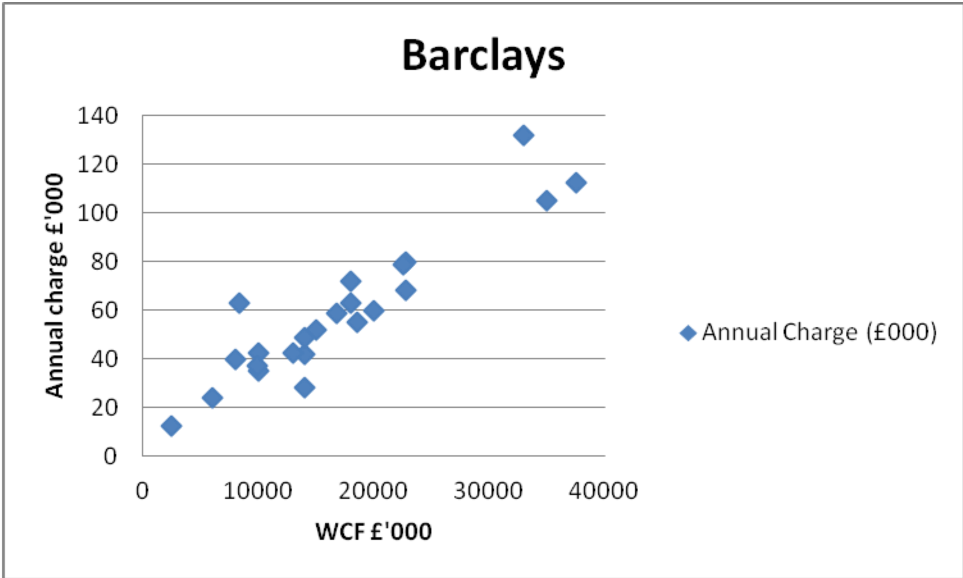
'Monitor requirement and maintaining risk rating.'

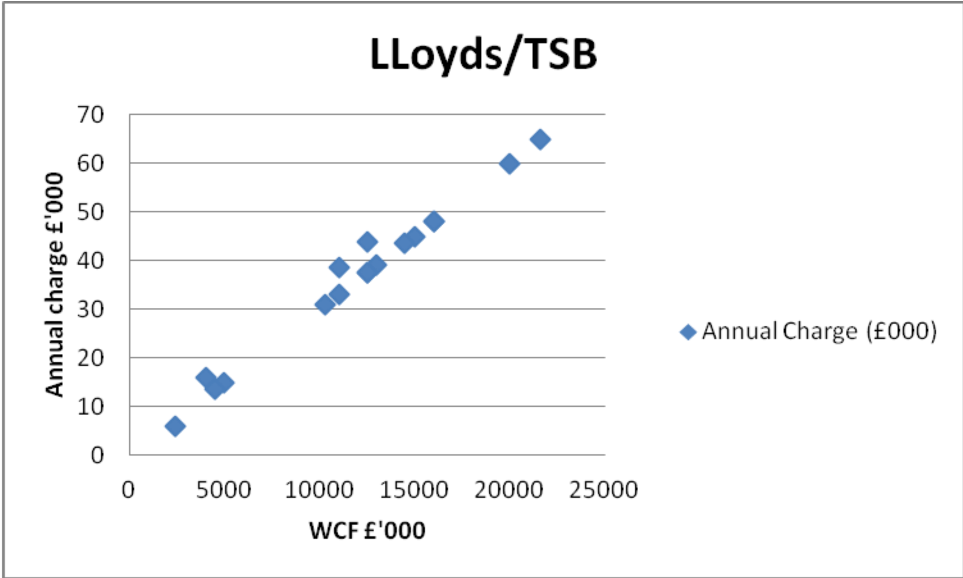
'To maintain enough headroom on the FTs liquidity rating.'

The survey concluded by asking respondents to indicate when their current WCF was due for renewal. This shows that within the sample, renewal dates are evenly spread throughout the year.

When is your working capital facility due for renewal (Aug 2011-July 2012)?	Response Percent	Response Count
September 2011	5.4%	3
October 2011	0.0%	0
November 2011	7.1%	4
December 2011	3.6%	2
January 2012	1.8%	1
February 2012	3.6%	2
March 2012	16.1%	9
April 2012	7.1%	4
May 2012	10.7%	6
June 2012	1.8%	1
July 2012	19.6%	11
More than 12 months	23.2%	13

Appendix 1: charges by WCF provider





Appendix 1 (Continued)