

Help Sheet: Liability Benchmark Scenarios

Arlingclose Online Spreadsheets

Purpose

Scenarios allow you to investigate various “what if” outcomes for the liability benchmark, including the need to borrow and the associated cost. The spreadsheet permits five separate scenarios.

Useful scenarios to model might include additional long-term borrowing or investments, slippage in capital expenditure, change of MRP policy, lower use of reserves and different inflation scenarios

Inputting Scenarios

You can enter scenarios for borrowing, long-term investments, capital expenditure and balance sheet resources. You should use different scenario numbers for HRA and General Fund.

Borrowing and long-term investments

In the borrowing workbook, you can enter new loans in a scenario by entering numbers 1 to 5 in the “Pool” column A. Enter the rest of the details as usual.

To model early repayment of a loan, on a new row enter the same loan details, except:

- Enter a scenario number in the “Pool” column A
- For the start date, enter the early repayment date
- For the principal, enter the outstanding principal on the early repayment date as a negative number

The premium cost from early repayment should be entered on rows 105 to 109 of the Resources worksheet in the Liability Benchmark workbook. Enter a positive number in the year of repayment and then negative numbers showing the premium amortisation in future years.

You can do the same with long-term investments in the Investments workbook.

Capital expenditure and MRP

You can model additional capital expenditure in the capital worksheet of the liability benchmark workbook. Just enter a scenario number from 1 to 5 in the “Element” column A.

To model slippage in the capital programme (i.e. expenditure moving to later years) you will need at least two rows. Enter negative numbers in the “Original cost” column C for years where you model lower expenditure and positive numbers in the years it moves to.

Element	Capital scheme funded from borrowing	Original cost (debt-funded) £'000	MRP Option	Year of capex y/e 31.03	MRP holiday years	Total MRP years	Annuity or reducing balance rate
	Forecast expenditure	5,000	Straight line	2022		25	
1	Model 25% slippage in 2022	-1,250	Straight line	2022		25	
1	Move slippage into 2023	1,250	Straight line	2023		25	

To model a change of MRP policy, re-enter the old expenditure with the same MRP option and a negative cost on one line, and then on a second line show it as positive expenditure with the new MRP option.

Element	Capital scheme funded from borrowing	Original cost (debt-funded)		Year of capex y/e	MRP holiday	Total MRP	Annuity or reducing balance rate
		£'000	MRP Option	31.03	years	years	
	Forecast expenditure	5,000	Straight line	2022		25	
1	Change from straight line	-5,000	Straight line	2022		25	
1	Change to annuity	5,000	Annuity	2022		25	2.00%

Balance sheet resources

Resources scenarios are modelled on rows 105 to 117 of the Resources worksheet. Rows 105 to 109 are for manual entry; enter the total movement against the relevant year. Remember that positive numbers indicate cash outflows.

To model changes in the inflation assumption, change the parameters in cells C113:D117. Note that this is in addition to the main inflation assumption. So, if you already have 2.5% inflation and want to model 3% in scenario 1, then you should enter 0.5% in cell D113. Use negative numbers to model lower inflation.

Also note that changes to inflation scenarios will not affect rows with zero inflation. This allows for items such as long-term debtors where there is a fixed repayment schedule.

Scenario Outputs

Select which scenarios you wish to display in cells G3:G7 on the Summary worksheet by selecting “Yes”. All the data in the “Position at 31 March” table, the “Cash Flow” table, the “Net Cost” table and the two charts will include the scenarios.

The scenario impact table in cells A48:C51 of the Summary worksheet shows the total additional revenue cost of the modelled scenario at higher, forecast and lower interest rates over the selected time period. Negative numbers indicate revenue savings. Costs will include changes in MRP if “Yes” is selected in cell J3.

More Help

Further help sheets are available at <https://www.arlingclose.com/insights/help-sheets>.

If you have any further queries, please email the Arlingclose team at treasury@arlingclose.com.

Arlingclose Limited
6th January 2022