

NATIONAL LOANS ACT 1968

Accounts, prepared under Section 3 (6) of the National Loans Act 1968, together with the Certificate and Report of the Comptroller and Auditor General thereon.

Presented pursuant to Section 3 (6) of the National Loans Act 1968.

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**Public Works Loan Board Accounts  
2006-07**

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# Foreword

## Introduction

These accounts have been prepared by the Public Works Loans Board (PWLB), under a direction issued by HM Treasury in accordance with Section 3 (6) of the National Loans Act 1968. The accounts show the interest and similar payments paid by PWLB customers in servicing their borrowing. The accounts do not demonstrate the resources that have been used to deliver the PWLB's objectives, which are instead reported in the DMO Report and Account 2006-07.

## Brief history and background of the Public Works Loans Board

The PWLB is an independent statutory body that originated in 1793 and became established on a permanent basis in 1817. Since 1946 it has consisted of a maximum of twelve Commissioners appointed by the Crown to hold office for four years; three Commissioners retire each year on 1 April but are eligible for re-appointment.

In July 2002 responsibility for the administration of the PWLB's operations was transferred from National Investments and Loans Office (NILO) to the UK Debt Management Office (DMO), NILO then being abolished. Since then, the PWLB has retained its statutory identity but otherwise operated as a business unit of the DMO from shared office accommodation.

Monies are provided by Act of Parliament and drawn from the National Loans Fund (NLF). The NLF is the government's main borrowing account and is administered by HM Treasury, which determines the rates of interest and thereby the maximum maturity for loans.

The PWLB's lending policy and operational arrangements are set out in Circulars issued with the Commissioners' approval and displayed on the PWLB's website, [www.pwlb.gov.uk](http://www.pwlb.gov.uk).

## Current Commissioners of the PWLB

Mr John Parkes, CBE DL Chairman	Treasurer and Pro-Chancellor, University of Hull; Director, EMIH Ltd; Former Chief Executive, Humberside County Council
Mrs Rachel Terry Deputy Chairman	Former Associate, Tribal Treasury Services Limited; Former Partner, Touche Ross & Company
Mr Brian Tanner, CBE DL	Chairman, Taunton & Somerset NHS Trust; Former Chief Executive, Somerset County Council
Mr Lawrence Nippers, MBE	Former Director of Finance and Central Services, Newport City Council
Mrs Sarah Wood	Former Director of Economic and Environmental Policy, Local Government Association
Miss Mei Sim Lai OBE	Principal, LaiPeters
Mr Gordon Edwards	Corporate Director for Resources Management, Aberdeen City Council
Mrs Philippa Foster Back OBE	Director, Institute of Business Ethics
Mr Tony Caplin	Chairman: Ealing Hospital NHS Trust, Disenco plc; Non-Executive Director: Panmure Gordon plc, Hand Picked Hotels Ltd

## **The role of the Commissioners**

The functions of the Commissioners, derived chiefly from the Public Works Loans Act 1875 ("the 1875 Act") and the National Loans Act 1968 ("the 1968 Act"), are to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. At present nearly all borrowers are local authorities requiring loans for capital purposes. The Commissioners are legally required, before making a loan, to satisfy themselves that there is sufficient security for its repayment.

In practice the Commissioners' main role is to determine the general lending policy of the PWLB and to deal with related matters. The Board has delegated to the Secretary day-to-day responsibilities for authorising loans and ensuring the collection of payments due. The Secretary acts as the Accounting Officer of the PWLB and attends meetings of the Board.

The Commissioners act as a Board to discharge their duties. The Commissioners are not paid for their services.

Management of credit risk is described in Note 10 to the accounts.

## **Audit arrangements**

The accounts are audited by the Comptroller and Auditor General in accordance with Section 3 (6) of the 1968 Act.

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that PWLB's auditors are aware of that information. So far as he is aware, there is no relevant audit information of which PWLB's auditors are unaware.

## **Management Commentary**

### **Factors influencing financial performance**

Movements in the PWLB balance sheet and its corresponding pattern of income are driven by borrower demand for new loans and the repayment (early or otherwise) of existing loans. PWLB does not take positions to enhance its income or to otherwise influence its financial performance. All interest receivable by PWLB from borrowers is payable to the NLF. The demand for new loans and the pattern of early redemption by borrowers of existing loans is greatly influenced by changes in market borrowing rates and borrower expectation of future interest rate changes.

### **Results for 2006-07**

In 2006-07, PWLB agreed new loans to borrowers of £12,354 million compared to £8,952 million the previous year. Borrowers took out longer loans on average in 2006-07 most notably to benefit from the extension of the maximum maturity of loans from thirty to fifty years which came into effect from 7 December 2005. This led to an increase over the year in the average period to maturity of fixed rate loans to 27.3 years (2006: 22.2 years). There was also a reduction in the weighted average interest rate of PWLB loans outstanding at the balance sheet date to 5.97% (2006: 6.21%).

PWLB borrowers redeemed early loans of value £10,698 million in 2006-07 (2005-06: £2,501 million). Premiums paid by PWLB customers for early redemption of loans were £354 million in 2006-07 (2005-06: £189 million). Discounts paid to PWLB customers for early redemption of loans were £169 million in 2006-07 (2005-06: £10 million).

At 31 March 2007, PWLB held loan assets outstanding to borrowers of £48,671 million (2006: £47,704 million), inclusive of accrued interest payable of £762 million (2006: £619 million). PWLB also held cash balances at the Bank of England of £211 million (2006: £60 million) comprising monies in transition between the NLF and PWLB borrowers.

In 2006-07 PWLB's income from interest receivable on loans was £2,895 million (2005-06: £2,863 million). The increase in interest income on the previous year was mainly due to higher average balances of PWLB loans outstanding over the course of 2006-07 (£47,951 million) compared to the previous year (£47,084 million).

The corresponding liability of the Board to the NLF comprised loan principal of £48,110 million (2006: £47,124 million) with combined loan interest of and early redemption premiums of £772 million (2006: £640 million) outstanding.

PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget agreed with HM Treasury. In 2006-07, the DMO received fees and charges of £4.3 million (2005-06: £3.1 million) from PWLB customers in respect of new loans issued.

### **The loans**

Section 3 (11) and Schedule 4 of the 1968 Act authorise the Commissioners to make loans to any local authority in Great Britain for any purpose for which the authority has power to borrow and to certain other authorities and persons for limited purposes. The Commissioners also have powers to lend to harbours.

The amount which the Commissioners may lend, or undertake to lend, is provided by Section 4 of the 1968 Act, which permits the Commissioners to make loans up to a limit of the aggregate of:

- any commitments of the Commissioners outstanding in respect of undertakings entered into by them to grant local loans; and
- any amount outstanding in respect of the principal of any loans.

The current limit of the aggregate, set by Finance Act 1990, is £55 billion.

All loans are drawn from, and repayments are paid back to, the NLF. All interest and premiums on early redemption paid to PWLB by borrowers is paid back to the NLF. Discounts payable on early redemptions are drawn from the NLF.

In accordance with Sections 3 (2) and 5 of the 1968 Act, interest on loans made by the Commissioners is payable at such rates as HM Treasury determines.

Loans made by the Commissioners are repayable within a period not exceeding that authorised by the Act authorising the local authority to borrow, or if no period is so authorised, they are repayable within 50 years (Section 11 of the 1875 Act and Section 2 (2) of the Local Authorities Loans Act 1945). In practice, the maximum period for which the Commissioners may advance new loans is the same as the longest period for which HM Treasury has set a rate, currently 50 years. Prior to February 2000, PWLB issued loans for up to 60 years.

The Commissioners are normally prepared to lend to an authority up to the available capacity in its legal borrowing limit as determined under Part 1, Chapter 1 of the Local Government Act 2003. The Commissioners require a statement of confirmation from the borrowing authority that it is complying with the appropriate requirements of the Board's Circulars and the relevant legislation with regard to the council's borrowing powers.

Section 5 (3) of the 1875 Act requires the Commissioners to prepare for each financial year a report of their transactions during the year, including a statement of loans approved and advanced. These reports are presented to Parliament and subsequently published.

**Mark Frankel**  
**Secretary, Public Works Loans Board**

18 July 2007

## Statement of Accounting Officer's Responsibilities

1. Under Section 3 (6) of the National Loans Act 1968 the Commissioners are required to prepare an account for each financial year in the form and on the basis determined by HM Treasury.
2. The Public Works Loan Board Account is prepared on an accruals basis, as directed by HM Treasury, and must give a true and fair view of the state of affairs of the Board and the cash flows for the financial year.
3. The Commissioners have appointed the Secretary to discharge their residual statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.
4. In preparing the accounts the Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Accounts, and apply suitable accounting policies on a consistent basis.
5. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Government Accounting'.

# Statement on Internal Control

## **1 Scope of responsibility**

The Public Works Loan Commissioners form an independent and unpaid statutory body, now described as a non-ministerial government department. They are empowered by the Public Works Loans Act 1875 as a body for 'the purpose of (making) loans'. Under Section 3 (6) of the National Loans Act 1968 the Public Works Loan Commissioners are required to prepare an account for each financial year in the form and on the basis determined by HM Treasury. Commissioners are required by statute to report annually to Parliament on their transactions in respect of monies issued to and loans granted by them and the execution of their duties as Commissioners.

The Commissioners have appointed me as Secretary to the Board and I am responsible for ensuring that appropriate advice is given to the Commissioners on all matters relating to financial propriety and regularity, for keeping accounts and submitting them for external audit by the National Audit Office, and for the efficient and effective use of resources and ensuring that the business is managed within the appropriate control framework. In determining the appropriate control measures I take assurance from the DMO's own Statement of Internal Control, which describes the wider control framework of the DMO of which the PWLB is a part. I understand that such assurances on controlling risks are relative and not absolute.

## **2 The purpose of the system of internal control**

The system of internal control is designed to reduce risk to an acceptable minimum and is based on an ongoing process to identify and prioritise risks that may jeopardise the efficient discharge of the PWLB's functions taking account of the impact of the risks. As the PWLB is a very small organisation conducting a long-established and narrowly focussed process the identification of operational risks is straightforward.

Since July 2002 certain features of the DMO's system of internal control have been incorporated into PWLB processes including loans being confirmed by a separate team and payments also being verified and released by non-PWLB staff. In addition the DMO's Business Continuity Plan takes full account of PWLB's needs and is subject to continual review and update.

The system of internal control has been in place for the year ended 31 March 2007 and up to the date of approval of this account, and accords with Treasury guidance. The DMO has made additions to the system of internal control over the course of the year.

## **3 The risk and control framework and capacity to handle risk**

The DMO has various formal mechanisms for managing its risks including operational and other risks relating to PWLB. Whilst the DMO includes risk management considerations as part of its normal business requirement, effort to further embed a strong risk management culture in every part of the organisation is being taken forward via a number of initiatives.

Heads of business units assess regularly whether risks to their operations are being managed effectively. New risks, and risks where there is an increased likelihood of occurrence, are highlighted and actions identified to ensure all will be effectively managed. The DMO has introduced Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of risks across the organisation. Project teams used risk registers to monitor and manage identified risks for each DMO project. The Managing Board has reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses, and resultant actions to improve controls.

All teams have documented procedures for their main activities. The DMO has policies on anti-fraud and whistleblowing that cover PWLB activities. In establishing controls to deter money laundering the DMO has followed best practice, guidance in the Financial Services Authority's handbook and from the joint money laundering steering group. Commissioners have regard for the relevant principles of the 'Code of Best Practice for Board Members of Public Bodies' issued by HM Treasury.

#### **4 Review of effectiveness**

As Secretary, I have responsibility for reviewing the effectiveness of the system of internal control relating to PWLB within the context of the wider DMO system of internal control on which the Chief Executive of the DMO has given me assurances. My review of the effectiveness of the system of internal control for PWLB is a continuous process. It is informed by the work of the managers who have responsibility for the development and maintenance of the internal control framework, work of the internal auditors and comments made by the external auditors in their management letter and other reports. A process to address weaknesses and ensure continuous improvement of the system is in place. I inform the Commissioners of details of Internal Audit reports and my response to any recommendations.

- PWLB team meet regularly to review risk management issues, including emerging risks, and to agree control improvements and other relevant measures as necessary.
- A controls team met regularly to review DMO's system of internal control including PWLB, recommend actions to management and to implement changes where appropriate. The team comprises the Head of the DMO's Risk Management Unit, the Controls and Compliance Manager, the Head of Internal Audit and the Finance Manager. The team has met regularly to identify weaknesses in the control environment, recommend actions to management and to lead the implementation of changes where appropriate. The controls team reports regularly to the Audit Committee on progress to improve the internal control system during the year.

During the year, responsibility for supporting me as Secretary of PWLB in matters relating to oversight of the governance, internal control and risk management processes was brought under the supervision of the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers, or equivalent, of each of the Exchequer Funds. These Funds, or the bodies handling such Funds, are the Public Works Loan Board, Commissioners for the Reduction of the National Debt, Debt Management Account, Exchange Equalisation Account, National Loans Fund, Consolidated Fund and the Contingencies Fund. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The current membership of the Committee is:

- Colin Price, Chair, non-executive member of the DMO's Managing Board, until December 2006 Chair of the Lord Chancellor's Strategic Investment Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive member of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke, Director General Finance and Strategy at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee met for the first time on 23 January 2007 and again on 29 March and 26 June, and will meet four times a year.

The Exchequer Funds Audit Committee considered the 2006-07 PWLB accounts in draft and provided me with its views before I formally signed the accounts.

- The DMO's Risk Management Unit provides control advice on risks throughout the DMO. In the DMO's management reporting structure the risk management unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO.
- The DMO's Internal Audit team evaluates the effectiveness of the DMO's processes for risk management, control and governance in order to provide an independent and objective opinion to the DMO's Accounting Officer. This evaluation also encompasses PWLB processes.

**Mark Frankel**  
**Secretary, Public Works Loan Board**

18 July 2007

## The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Public Works Loan Board for the year ended 31 March 2007 under the National Loans Act 1968. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### **Respective responsibilities of the Loan Commissioners, Secretary to the Public Works Loan Board and Auditor**

As described in the Foreword, the Loan Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary to the Public Works Loan Board to discharge their responsibilities for the preparation of financial statements in accordance with Section 3 (6) of the National Loans Act 1968 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Secretary is also responsible for preparation of the Foreword. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Loans Act 1968 and Treasury directions made thereunder. I also report whether in all material respects the financial transactions of the Public Works Loan Board have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition, I report to you if the Public Works Loan Board has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Public Work Loans Board's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Public Works Loan Board's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Secretary to the Public Works Loan Board in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Public Works Loan Board's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinions**

### **Audit Opinion**

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Loans Act 1968 and directions made thereunder by Treasury, of the state of the Public Works Loan Board's affairs as at 31 March 2007 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and directions made thereunder.

### **Audit Opinion on Regularity**

In my opinion, in all material respects the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

## **Report**

I have no observations to make on these financial statements.

**John Bourn**  
**Comptroller and Auditor General**  
**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria**  
**London SW1W 9SP**

20 July 2007

## Income and Expenditure Account

For the year ended 31 March 2007

	<b>Note</b>	<b>2006-07 £m</b>	<b>2005-06 £m</b>
Interest income	2	2,895	2,863
Premiums/(discounts) receivable for early redemption	3	185	179
		<hr/>	<hr/>
<b>Operating income</b>		<b>3,080</b>	<b>3,042</b>
Interest and premiums payable to National Loans Fund		(3,080)	(3,042)
		<hr/>	<hr/>
<b>Operating surplus retained</b>		<b>-</b>	<b>-</b>

There were no gains or losses during the year other than those disclosed in the Income and Expenditure Account

The notes on page 13 to 20 form part of these accounts.

## Balance Sheet

As at 31 March 2007

	<b>Note</b>	<b>2007 £m</b>	<b>2006 £m</b>
<b>Assets</b>			
Cash and balances at Bank of England	9d	211	60
Loans outstanding to customers	5, 6	48,671	47,704
<b>Total Assets</b>		<b>48,882</b>	<b>47,764</b>
<b>Liabilities</b>			
Amounts owed to the National Loans Fund			
Loan principal	8	48,110	47,124
Loan Interest		773	639
Discount/Premium on loan early redemption		(1)	1
<b>Total Liabilities</b>		<b>48,882</b>	<b>47,764</b>

The notes on page 13 to 20 form part of these accounts.

**Mark Frankel**  
Secretary, Public Works Loan Board

18 July 2007

## Cash Flow Statement

For the year ended 31 March 2007

	<b>Note</b>	<b>2007 £m</b>	<b>2006 £m</b>
Net cash flow from operating activities	9a	2,244	(1,966)
Returns on investments and servicing of finance	9b	(3,080)	(3,042)
<b>Net cash flow before financing</b>		<b>(836)</b>	<b>(5,008)</b>
Financing	9c	987	5,021
<b>Increase/(Decrease) in cash</b>		<b>151</b>	<b>13</b>

The notes on page 13 to 20 form part of these accounts.

# Notes to the Accounts for the Year Ended 31 March 2007

## 1 Accounting Policies

### (i) Basis of preparation

The accounts have been prepared in accordance with a direction given by HM Treasury and in accordance with UK GAAP in so far as they are appropriate to PWLB, under the historical cost convention.

During the year the PWLB has adopted FRS 26 'Financial Instruments: Measurement' for the purpose of valuing financial instruments. This is a change in accounting policy in respect of all loans. However no prior period adjustment to Total Assets or Total Liabilities has been necessary as the overall valuation of loans on an FRS 26 basis is not materially different from the valuation using the previous method. The PWLB has also early-adopted FRS 29 'Financial Instruments: Disclosures' with the exception of Appendix E 'Capital Disclosures', which is not relevant to the structure and operations of the PWLB.

### (ii) Financial assets

The PWLB classifies its financial assets as loans and receivables under FRS 26, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The PWLB does not sell financial assets and so does not designate any loans and receivables as available-for-sale nor held for trading.

All financial assets are recognised initially at fair value, normally the amount advanced to the borrower. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest rate, cash flows are based on the contractual terms of the loan. Owing principally to the long maturities of most loans and the volatile pattern of early repayments, the actual cash flows and the expected lives of the loans cannot be estimated reliably.

The market value of loans outstanding, disclosed in Note 6 to the accounts, is calculated as the aggregate net present value of future cash flows on each individual loan.

### (iii) Recognition of assets and liabilities

Loans and receivables are recognised when cash is advanced to borrowers and are derecognised when borrowers settle their obligations.

### (iv) Income recognition

Interest income is recognised, using the effective interest method.

**2 Interest Receivable**

	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>
Fixed rate loans	2,885	2,846
Variable rate loans	10	17
	<b>2,895</b>	<b>2,863</b>

**3 Premiums/(Discounts) Receivable for Early Redemption**

	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>
Premiums payable	354	189
Discounts payable	(169)	(10)
	<b>185</b>	<b>179</b>

#### 4 Segmental Analysis of Gross Interest Receivable

##### 4a Segmental Analysis by Type of Borrower 2007

	2007 Local Authority	2007 Parish Council	2007 Harbour & Drainage Board	2007 Total
	£m	£m	£m	£m
Fixed Rate Loans	2,879	5	1	2,885
Variable Rate Loans	10	-	-	10
	<b>2,889</b>	<b>5</b>	<b>1</b>	<b>2,895</b>

##### Segmental Analysis by Type of Borrower 2006

	2006 Local Authority	2006 Parish Council	2006 Harbour & Drainage Board	2006 Total
	£m	£m	£m	£m
Fixed Rate Loans	2,840	5	1	2,846
Variable Rate Loans	17	-	-	17
	<b>2,857</b>	<b>5</b>	<b>1</b>	<b>2,863</b>

##### 4b Segmental Analysis by Country 2007

	England £m	Wales £m	Scotland £m	Total £m
Fixed rate loans	2,228	194	463	2,885
Variable rate loans	10	-	-	10
	<b>2,238</b>	<b>194</b>	<b>463</b>	<b>2,895</b>

##### Segmental Analysis by Country 2006

	England £m	Wales £m	Scotland £m	Total £m
Fixed rate loans	2,187	196	463	2,846
Variable rate loans	17	-	-	17
	<b>2,204</b>	<b>196</b>	<b>463</b>	<b>2,863</b>

#### 5 Loans Outstanding to customers

	2007 £m	2006 £m
Fixed rate loans	47,734	46,867
Variable rate loans	175	218
<b>Total – Loans outstanding</b>	<b>47,909</b>	<b>47,085</b>
Accrued interest on fixed rate loans	761	618
Accrued interest on variable rate loans	1	1
<b>Total - Accrued interest</b>	<b>762</b>	<b>619</b>
<b>Total – Loans outstanding</b>	<b>48,671</b>	<b>47,704</b>

**6 Loans and advances to customers****6a Loans Outstanding - Market Valuation**

	<b>2007 Principal</b>	<b>2007 Market Value</b>	<b>2006 Principal</b>	<b>2006 Market Value</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Fixed rate loans	47,734	53,013	46,867	55,888
Variable rate loans	175	176	218	219
	<b>47,909</b>	<b>53,189</b>	<b>47,085</b>	<b>56,107</b>

At 31 March 2007, £1 million of loans (2005-06: £1 million) had been confirmed but not yet advanced. These loans are not included in the balance sheet.

The balance of outstanding loans includes £5 million of loans (2005-06: £35 million) which borrowers had confirmed their intention to repay but as at the balance sheet date had not yet been received.

**6b Loans Outstanding - Country Analysis**

	<b>2007 £m</b>	<b>2006 £m</b>
England	37,668	36,613
Wales	3,151	3,256
Scotland	7,090	7,216
Total	<b>47,909</b>	<b>47,085</b>

**6c Loans Outstanding - Maturity Analysis**

	<b>2007 £m</b>	<b>2006 £m</b>
In not more than 3 months	226	237
In more than 3 months but not more than 1 year	518	670
In more than 1 year but not more than 2 years	560	681
In more than 2 years but not more than 3 years	604	776
In more than 3 years but not more than 4 years	1,022	890
In more than 4 years but not more than 5 years	933	1,254
In more than 5 years but not more than 6 years	692	1,094
In more than 6 years but not more than 10 years	4,585	5,293
In more than 10 years but not more than 15 years	4,079	4,664
More than 15 years	34,690	31,526
	<b>47,909</b>	<b>47,085</b>

**6d Loans Outstanding - Interest Rate Profile**

<b>Loan Type</b>	<b>2007 Principal Outstanding £m</b>	<b>2007 Average Rate %</b>	<b>2006 Principal Outstanding</b>	<b>2006 Average Rate %</b>
Fixed rate (principal at maturity loans)	46,052	5.93	44,946	6.18
Fixed rate (equal instalments of principal loans)	857	5.83	1,005	5.89
Fixed annuity	825	8.45	916	8.62
<b>Total - Fixed rate loans</b>	<b>47,734</b>	<b>5.97</b>	<b>46,867</b>	<b>6.22</b>
1-Month variable (principal at maturity loans)	52	5.45	54	4.57
3-Month variable (principal at maturity loans)	40	5.55	71	4.58
6-Month variable (principal at maturity loans)	78	5.53	86	4.53
1-Month variable (EIP loans)	-	5.45	1	2.91
3-Month variable (EIP loans)	-	5.51	-	4.56
6-Month variable (EIP loans)	5	5.26	6	4.6
<b>Total - Variable rate loans</b>	<b>175</b>	<b>5.51</b>	<b>218</b>	<b>4.55</b>
<b>Total - All Loan Types</b>	<b>47,909</b>	<b>5.97</b>	<b>47,085</b>	<b>6.21</b>

EIP means equal instalments of principal.

The weighted average period for which rates are fixed is 27.5 years (2005-06: 22.2 years) for fixed rate loans.

**7 New Issue, Maturity and Early Redemption of Loans**

	<b>2007 £m</b>	<b>2006 £m</b>
New agreed loans to customers	12,354	8,952
Loans maturing	(831)	(1,436)
Loans redeemed early	(10,698)	(2,501)
Net increase/(decrease) in loans	<b>825</b>	<b>5,015</b>

The net increase in loans does not equal the movement in loans on the balance sheet as that figure includes accrued interest.

**8 Loan principal owed to National Loans Fund**

	<b>2007 £m</b>	<b>2006 £m</b>
Loan principal outstanding to customers	47,909	47,085
Loan principal repaid but not yet surrendered to NLF	201	39
Total loan principal owed to National Loans Fund	<b>48,110</b>	<b>47,124</b>

**9 Analysis of cash flow**

	<b>2006-07</b>	<b>2005-06</b>	
	<b>£m</b>	<b>£m</b>	
<b>9a Reconciliation of Operating Income to Net Cash Flow from Operating Activities</b>			
Operating income	<b>3,080</b>	<b>3,042</b>	
(Increase)/Decrease in loans and advances to customers	(824)	(5,015)	
(Increase)/Decrease in accrued income	(143)	(35)	
Increase/(Decrease) in loan interest payable to NLF	133	43	
Increase/(Decrease) in net early redemption discounts and premiums due to NLF	(2)	(1)	
<b>Net cash flow from operating activities</b>	<b><u>2,244</u></b>	<b><u>(1,966)</u></b>	
<b>9b Return on Investments and Servicing of Finance</b>			
Interest and premiums payable to National Loans Fund	(3,080)	(3,042)	
<b>Total returns on investments and servicing of finance</b>	<b><u>(3,080)</u></b>	<b><u>(3,042)</u></b>	
<b>9c Financing</b>			
Increase/(Decrease) in loans principal outstanding to NLF	987	5,021	
<b>Total financing</b>	<b><u>987</u></b>	<b><u>5,021</u></b>	
<b>9d Analysis of Cash Balances</b>	<b>2007</b>	<b>Movement</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash and balances at Bank of England	<b>211</b>	<b>151</b>	<b>60</b>

## 10 Risk Management

Measurement and management of certain specific financial risks is described below.

**Credit risk:** credit risk is the risk that a counterparty will fail to discharge a contractual obligation, resulting in financial loss to the PWLB. Any such loss would be borne by the NLF.

### *Risk measurement*

Credit risk exposures (before collateral held or other credit enhancements) are shown below:

	Wholly-owned by UK central government	Major local authorities	Parish councils and drainage boards)	Harbour boards	Total
	£m	£m	£m	£m	£m
<b>2007</b>					
Cash and balances at Bank of England	211	-	-	-	211
Loans and advances to customers	0	47,811	92	6	47,909
Accrued income	0	761	1	0	762
<b>Total gross amount</b>	<b>211</b>	<b>48,572</b>	<b>93</b>	<b>6</b>	<b>48,882</b>
Loans confirmed but not advanced	0	1	0	0	1
<b>2006</b>					
Cash and balances at Bank of England	60	-	-	-	60
Loans and advances to customers	-	46,993	86	6	47,085
Accrued income	-	618	1	-	619
<b>Total gross amount</b>	<b>60</b>	<b>47,611</b>	<b>87</b>	<b>6</b>	<b>47,764</b>
Loans confirmed but not advanced	-	1	-	-	1

The components of 'Total gross amount' set out above are based on carrying amounts as reported in the balance sheet.

There were no overdue loan repayments, renegotiated loans or assets considered impaired at 31 March 2007 (or 31 March 2006).

Loans for which payment schedules had been amended in order to facilitate more efficient administration by local authorities are not considered to constitute renegotiated loans in credit risk terms and there were no such amendments for harbour boards.

The PWLB does not issue any financial guarantees.

### *Risk management*

As stated on page 2, the PWLB Commissioners are legally required before making a loan to satisfy themselves that there is sufficient security for its repayment. The vires of all new borrowers are checked.

The PWLB lends only to local authorities and other prescribed bodies.

Loans to local authorities, together with related interest, are automatically secured by statute on all revenue streams of the borrower.

Loans to harbour boards are secured on property and are made only with the provision of a guarantee from the local authority. In addition, the business plan is reviewed. No new loans were made to harbour boards in the year ended 31 March 2007 (or 31 March 2006).

The PWLB does not differentiate borrowers by credit rating.

The PWLB continuously monitors its total lending against a limit set by statute.

**Market risk:** market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises interest rate risk, currency risk and other price risk. PWLB activities are not considered to give rise to interest rate risk for the PWLB itself, but rather form part of the interest rate risk profile of the NLF. Interest rates on PWLB lending are set by the DMO.

There is no exposure to currency risk or other price risk.

**Liquidity risk:** liquidity risk is the risk that the PWLB will encounter difficulty in meeting obligations associated with financial liabilities.

PWLB activities are not considered to give rise to liquidity risk for the PWLB itself, but rather form part of the liquidity risk profile of the NLF. PWLB cash flow requirements are forecast and monitored daily.

## ANNEX

### **ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 3 (6) OF NATIONAL LOANS ACT 1968**

1. The Public Works Loans Board shall prepare accounts for the financial year ended 31 March 2004 and subsequent financial years comprising:

- (a) a Foreword
- (b) a Statement of Internal Control
- (c) an Income and Expenditure Account
- (d) a Balance Sheet; and
- (e) a Cash Flow Statement

including such notes as may be necessary for the purposes referred to in the following paragraphs.

2. The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.

3. Subject to this requirement, the accounts shall be prepared in accordance with:

- (a) Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this public sector account.
- (b) any other relevant guidance that the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.

4. This direction shall be reproduced as an appendix to the accounts.

**DAVID A CRUDEN, FCA**

**HEAD OF CENTRAL ACCOUNTANCY TEAM, HER MAJESTY'S TREASURY**

25 February 2005