

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  
2008-2009**

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## Foreword

### Introduction

These accounts have been prepared by the Public Works Loan Board (PWLB) under a direction issued by HM Treasury in accordance with Section 3 (6) of the National Loans Act 1968. The accounts show amounts advanced by the Board and the repayments received from borrowers. The accounts do not demonstrate the resources that have been used to deliver the PWLB's objectives, which are reported in the Debt Management Office Report and Accounts 2008-2009.

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

The PWLB is an independent statutory body that originated in 1793 and became permanently established 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 the 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.

Monies are provided by Act of Parliament and drawn from the National Loans Fund (NLF). The NLF is HM Government's main borrowing account and is administered by HM Treasury.

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<br>Chairman  | Former Treasurer and Pro-Chancellor, University of Hull; Former Director, EMIH Ltd; Former Chief Executive, Humberside County Council |
| Mrs Rachel Terry<br>Deputy Chairman | Independent consultant, housing finance; Former Associate, Tribal Treasury Services Limited; Former Partner, Touche Ross & Company    |
| Mr Brian Tanner, CBE DL             | Former 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, OBE                 | Former Director of Economic and Environmental Policy, Local Government Association  |
| Miss Mei Sim Lai, OBE DL            | Principal, LaiPeters & Co. Chartered Accountants  |
| 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.

Management of credit risk is described in Note 9 to the accounts.

The Commissioners act as a Board to discharge their duties. The Commissioners are not paid for their services. 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, which take place quarterly.

### **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 the 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.

Section 4(1) of the National Loans Act 1968 limits the aggregate amount that may be outstanding in respect of commitments entered into by the Public Works Loan Commissioners. The Local Loans (Increase of Limit) Order 2008, which came into force on 20th November 2008, increased that limit from £55,000 million to £70,000 million.

All loans are drawn from, and repayments are paid back to, the NLF. All interest and premiums on early redemption paid to the PWLB by borrowers are 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 rates set by the DMO, using a methodology agreed with HM Treasury. Rates are reset daily, exceptionally intra-daily. Rates are also set to apply to early repayments.

The two types of loan available from the PWLB are:

- Fixed rate loans, for which the maximum repayment period is currently 50 years, and on which the rate of interest is fixed for the duration of the loan. Repayments for fixed rate loans occur at half-yearly intervals; and
- Variable rate loans, for which the maximum repayment period is currently 10 years, and on which the rate of interest may be varied at either one, three or six month intervals. Repayments are made at intervals corresponding to that selected for the variation of the rate. Once an interval is chosen, it remains unchanged throughout the life of the loan.

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 authority'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 as the 'Annual Report', which can be found on the PWLB's website, [www.pwlb.gov.uk](http://www.pwlb.gov.uk).

### **Audit arrangements**

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

The Secretary has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the PWLB's auditors are aware of that information. So far as he knows, there is no relevant audit information of which the 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. All interest receivable by the PWLB from borrowers is payable to the NLF. The demand for new loans is influenced by local authorities' need for capital finance, changes in market borrowing rates and borrowers' expectation of future interest rate changes. These factors, considered alongside any premium or discount payable for early redemption and the rates available for money on deposit, also influence the pattern of demand for early redemption of existing loans by borrowers and for refinancing. Borrowers can request to repay loans before their due date. Acceptance of requests for early repayment is at the discretion of the PWLB.

### **Results for 2008-2009**

In 2008-2009, the PWLB agreed new loans to borrowers of £6,360 million compared to £10,000 million the previous year.

Overall, as at 31 March 2009, there was a decrease in the average period to maturity of fixed rate loans to 27.0 years (2008: 29.5 years). There was also a reduction in the weighted average interest rate of the PWLB's loans outstanding at the balance sheet date to 5.50% (2008: 5.72%).

The PWLB's borrowers redeemed early loans of value £5,622 million in 2008-2009 (2007-2008: £6,434 million). Premiums paid by the PWLB's customers for early redemption of loans were £376 million in 2008-2009 (2007-2008: £337 million). Discounts paid to the PWLB's customers for early redemption of loans were £90 million in 2008-2009 (2007-2008: £244 million).

At 31 March 2009, the PWLB held loan assets outstanding to borrowers of £51,425 million (2008: £51,344 million), inclusive of accrued interest receivable of £572 million (2008: £598 million). The PWLB also held a cash balance at the Bank of England of £24 million (2008: £29 million) comprising monies in transition between the NLF and the PWLB's borrowers.

In 2008-2009, the PWLB's interest receivable on loans was £2,888 million (2007-2008: £2,841 million). This was a slight increase from the previous year, despite falling interest rates being applied to variable rate loans and new loans in the second half of the financial

year. The increase was principally the result of a greater average amount of loan principal outstanding to customers in 2008-2009 than the prior year.

The assets of the PWLB are match-funded by borrowing from the NLF. Therefore all the PWLB's assets are matched by a corresponding liability to the NLF.

The PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget agreed with HM Treasury. In 2008-2009, the DMO received fees and charges of £2.2 million (2007-2008: £3.5 million) from the PWLB's customers in respect of new loans issued.

Further information on loans is published annually in the unaudited PWLB's Annual Report to Parliament, which can be accessed on the PWLB's website, [www.pwlb.gov.uk](http://www.pwlb.gov.uk).

**Mark Frankel**  
**Secretary, Public Works Loan Board**  
**27 May 2009**

## Statement of Secretary'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 Accounts are 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 Secretary 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 'Managing Public Money'.

# Statement on Internal Control

## **1 Scope of responsibility**

The Public Works Loan Board Commissioners have appointed me as Secretary to the Board. 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 Comptroller and Auditor General and for the efficient and effective use of resources and ensuring that the business is managed within the appropriate control framework.

The PWLB is a separate statutory entity managed within the control framework of the DMO. While I am responsible for the PWLB's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which the PWLB is managed. In discharging my own controls responsibilities I place assurance on the continued sound maintenance of the wider control framework from the Statement on Internal Control for the DMO, although I understand that only reasonable and not absolute assurance can be given that the risks have been controlled.

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

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a process designed to identify and prioritise risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Since July 2002 certain elements of the DMO's system of internal control have been incorporated into the PWLB's 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 the 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 2009 and up to the date of approval of this account, and accords with Treasury guidance.

## **3 Capacity to handle risk**

The DMO has a formal risk management strategy and policy, which includes the PWLB's activities, set by the DMO Managing Board. The DMO has risk management policies and has documented the risk management processes.

The DMO's Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub committee of the Managing Board generally meets weekly. The terms of reference of this committee and those of the Risk Committee clearly set out their roles and responsibilities for providing the organisational capacity to consider issues and make relevant decisions at the appropriate level.

Staff are required to signify that they have read and accepted the DMO's rules on Personal Dealing and the DMO's Policy on the Use of Information Systems and Technology, and that they are aware of and will continue to keep up to date with the DMO's policies with respect to whistle blowing, fraud and anti-money laundering. The DMO ensures that the exercise is undertaken on an annual basis in order to maintain a good level of awareness of the DMO's

policies in these areas. All members of staff have job descriptions, including specific key risks they are expected to manage.

Management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation. Functional managers are responsible for maintaining compliance arrangements across the DMO in their area of specialism.

#### **4 The risk and control framework**

The DMO has various formal mechanisms for managing its risks, including operational and other risk relating to the PWLB, that are incorporated into its approach to both regular operations and new business initiatives. There are processes in place to ensure regular measurement and monitoring of key business risks.

The DMO's Risk Management Unit (RMU) provides control advice on risks throughout the DMO. In the DMO's management reporting structure the RMU is separate and independent of the DMO's trading operations. The RMU conducts risk analysis and provides operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risks is facilitated by the RMU, via consultation with heads of business units and functional teams. Regular meetings are held with heads of business units and functional teams to assess whether risks to their operations are being managed effectively. Significant risk issues are assessed by likelihood and materiality of occurrence. New risks and risks with an increased risk profile are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is obtained on a regular basis, to ensure issues highlighted by internal and external audit and other identified actions to improve the control environment are managed and progressed against agreed deadlines.

The RMU communicates key risk issues to management on a regular basis within a number of forums, to enable management to take informed decisions on risk issues. Key forums are as follows:

- The Risk Committee, which acts as an enabler in the management and escalation of risk issues. The Risk Committee meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. The Risk Committee monitors and reviews key business risks.
- A Controls Group meets periodically to review issues affecting the DMO's system of internal control, and to analyse material changes to the control environment. The group recommends actions to management and implements changes where appropriate. The Controls Group comprises of representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit.
- A regular Operational Risk report is published to promote awareness of operational risk issues that the DMO faces, and to facilitate the escalation of issues where appropriate. The report ordinarily contains commentary on key risks, progress on treatment actions and exception reporting, and is produced by the RMU for SROs and the Managing Board.
- A high level Strategic Risk report is published to promote awareness of all high level issues and risks that the DMO faces at an organisational level. The report is based on a High Level Risk Register maintained by RMU, and is presented to the Managing Board for review on a regular basis. The frequency of review of this reporting has

increased over the period, in response to an increased risk focus by Senior Management within the DMO.

The PWLB team meets regularly to review risk management issues, including emerging risks, and to agree control improvements and other relevant measures as necessary.

The DMO has policies on anti-fraud measures, money laundering and whistle blowing. The DMO has its own anti-money laundering handbook and staff report on any anti-money laundering developments and processes to the Managing Board.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. There is a Senior Information Risk Owner (SIRO) for the DMO, responsible for the information risk policy and risk assessment relating to information, who acts as an advocate for information assurance at the Managing Board and through internal discussions.

Over the year 2008-2009, the DMO has continued to implement requirements of the Cabinet Office-led cross-Government Data Handling review, in particular providing office wide presentations, making known the content of the draft pocket guide and recently deploying the Government-wide e-Learning package – Protecting Government Information. Whilst the majority of the mandates of the Security Policy Framework are in place, the DMO is undergoing an independent review of the network and web security as part of Communications-Electronics Security Group (CESG) accreditation and developing the record management file structure to ensure that all aspects of this revised policy can be fully implemented.

The DMO's Business Continuity Plan (BCP), including Disaster Recovery (DR) site and other arrangements is subject to continual review and update with the SROs taking an active role during the year in progressing BCP improvements. A phased delivery of improvements was implemented over the period, including relocation of the DR site to a higher category data centre, and an increase of services available at the DR site. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

Responsibility for supporting me as Accounting Officer in matters relating to governance, internal control and risk management processes rests with the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds, which are the Debt Management Account, Public Works Loan Board, Exchange Equalisation Account, National Loans Fund, Consolidated Fund, Contingencies Fund and the transactions of the Commissioners for the Reduction of the National Debt. 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 and formerly Global Pension Fund Adviser/Finance Director at Shell Pension 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, formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee meets quarterly.

## **5 Review of Effectiveness**

As Secretary, I have responsibility for reviewing the effectiveness of the system of internal control relating to the 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 the PWLB is informed by the work of executive managers in the DMO, who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the internal and external auditors. I inform the Commissioners of details of audit reports and my response to any recommendations.

The Exchequer Funds Audit Committee considered the 2008-2009 PWLB accounts in draft and provided me with its views before I formally signed the accounts.

There are a number of activities that form the basis of my review of the effectiveness of the system of internal control in place for the PWLB, acting within the framework of the DMO. Annually I formally review the key outcomes and findings of each activity in order to make my assessment.

- The Managing Board met approximately every six weeks and considered risk management and operational control issues throughout the year. To support this, members of the Managing Board received the reports produced for regular meetings of SROs and details of any agreed actions to improve the DMO's risk profile. The Managing Board has also received high level Strategic Risk reports for review on a regular basis. The executive sub-committee of the Managing Board usually met weekly and considered risk and control issues on a regular basis.
- The Risk Committee has reported during the year on significant current and emerging risk issues and actions taken to mitigate such risks.
- The Controls Group has reported on any significant risk concerns relating to the introduction of new business activities as well as risks relating to other change management activities, and has reported on actions taken to mitigate identified risks.
- During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, to the Audit Committee throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The Internal Audit work programme is approved by the Audit Committee at the start of the year.
- Internal Audit attended each meeting of the Audit Committee to report the results of audit work and the results of follow-up work on management action to address audit recommendations.
- Internal Audit's view was that assurance could be given over the risk management, control and governance arrangements relevant to the accounts. There are no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement on Internal Control.

### **Significant Internal Control Issues 2008-2009**

No significant internal controls issues in the PWLB were identified in 2008-2009.

In my opinion, the PWLB's system of internal control was effective throughout the financial year 2008-2009 and remains so on the date I sign this statement

**Mark Frankel**  
**Secretary, Public Works Loan Board**  
**27 May 2009**

## 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 2009 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 Secretary'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 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 judgements 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 Treasury directions made thereunder, of the state of the Public Works Loan Board's affairs as at 31 March 2009;
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and Treasury directions made thereunder; and
- information contained in the Foreword is consistent with the financial statements.

### **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.

**T J Burr**  
**Comptroller and Auditor General**

**28 May 2009**

**National Audit Office**  
**151 Buckingham Palace Road**  
**Victoria**  
**London SW1W 9SS**

## Income and Expenditure Account

For the year ended 31 March 2009

|   | <b>Note</b> | <b>2009<br/>£m</b> | <b>2008<br/>£m</b> |
|---|-------------|--------------------|--------------------|
| Interest income                         | 2           | 3,174              | 2,934              |
| <b>Operating income</b>                 |             | <b>3,174</b>       | <b>2,934</b>       |
| Interest payable to National Loans Fund |             | (3,174)            | (2,934)            |
| <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 pages 15 to 21 form part of these accounts.

## Balance Sheet

As at 31 March 2009

|   | Note | 2009<br>£m    | 2008<br>£m    |
|---|------|---------------|---------------|
| <b>Assets</b>                           |      |               |               |
| Cash and balances at Bank of England    | 8d   | 24            | 29            |
| Loans outstanding to customers          | 4    | 51,425        | 51,344        |
| <b>Total Assets</b>                     |      | <b>51,449</b> | <b>51,373</b> |
| <b>Liabilities</b>                      |      |               |               |
| Amounts owed to the National Loans Fund | 7    | 51,449        | 51,373        |
| <b>Total Liabilities</b>                |      | <b>51,449</b> | <b>51,373</b> |

The notes on pages 15 to 21 form part of these accounts.

**Mark Frankel**  
**Secretary, Public Works Loan Board**  
**27 May 2009**

## Cash Flow Statement

For the year ended 31 March 2009

|   | <b>Note</b> | <b>2009<br/>£m</b> | <b>2008<br/>£m</b> |
|---|-------------|--------------------|--------------------|
| Net cash flow from operating activities         | 8a          | 3,093              | 263                |
| Returns on investments and servicing of finance | 8b          | (3,214)            | (3,087)            |
| <b>Net cash flow before financing</b>           |             | <b>(121)</b>       | <b>(2,824)</b>     |
| Financing                                       | 8c          | 116                | 2,642              |
| <b>Decrease in cash</b>                         |             | <b>(5)</b>         | <b>(182)</b>       |

The notes on pages 15 to 21 form part of these accounts.

## Notes to the Accounts for the Year Ended 31 March 2009

### 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 the PWLB, under the historical cost convention.

#### (ii) Financial assets and income recognition

The PWLB classifies its financial assets as loans and receivables under FRS 26 (Financial Instruments: Recognition and Measurement), 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 or held for trading.

All loans 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. Thus premiums and discounts on early repayments are recognised when received and paid.

The market value of loans outstanding, disclosed in Note 5 to the accounts, is calculated as the aggregate net present value of future cash flows on each individual loan.

#### (iii) Liabilities

All the PWLB's liabilities relate to monies drawn from the National Loans Fund for the purpose of issuing loans to the PWLB's borrowers. All principal and interest payments receivable by the PWLB, along with any premiums for early redemption, are repayable to the National Loans Fund and are valued in the same way as the corresponding asset.

#### (iv) Recognition of assets and liabilities

Loans and receivables are recognised when cash is advanced to borrowers and are derecognised when borrowers settle their obligations. Liabilities are recognised when cash is advanced to the PWLB from the National Loans Fund and derecognised when cash is paid back to the National Loans Fund.

**2 Interest income**

|   | <b>2009</b>  | <b>2008</b>  |
|---|--------------|--------------|
|   | <b>£m</b>    | <b>£m</b>    |
| Contractual interest income for fixed rate loans    | 2,885        | 2,834        |
| Contractual interest income for variable rate loans | 3            | 7            |
| Premiums received                                   | 376          | 337          |
| Discounts paid                                      | (90)         | (244)        |
| <b>Total interest</b>                               | <b>3,174</b> | <b>2,934</b> |

**3 Segmental analysis of contractual interest income by country****Analysis for 2009**

|                       | <b>England</b> | <b>Wales</b> | <b>Scotland</b> | <b>Total</b> |
|-----------------------|----------------|--------------|-----------------|--------------|
|                       | <b>£m</b>      | <b>£m</b>    | <b>£m</b>       | <b>£m</b>    |
| Fixed rate loans      | 2,267          | 180          | 438             | 2,885        |
| Variable rate loans   | 3              | -            | -               | 3            |
| <b>Total interest</b> | <b>2,270</b>   | <b>180</b>   | <b>438</b>      | <b>2,888</b> |

**Analysis for 2008**

|                       | <b>England</b> | <b>Wales</b> | <b>Scotland</b> | <b>Total</b> |
|-----------------------|----------------|--------------|-----------------|--------------|
|                       | <b>£m</b>      | <b>£m</b>    | <b>£m</b>       | <b>£m</b>    |
| Fixed rate loans      | 2,210          | 185          | 439             | 2,834        |
| Variable rate loans   | 7              | -            | -               | 7            |
| <b>Total interest</b> | <b>2,217</b>   | <b>185</b>   | <b>439</b>      | <b>2,841</b> |

**4 Loans outstanding to customers**

|  | <b>2009</b>   | <b>2008</b>   |
|--|---------------|---------------|
|  | <b>£m</b>     | <b>£m</b>     |
| Fixed rate loans principal                             | 50,694        | 50,671        |
| Variable rate loans principal                          | 159           | 75            |
| <b>Total – Loan principal outstanding (per Note 5)</b> | <b>50,853</b> | <b>50,746</b> |
| Accrued interest on fixed rate loans                   | 572           | 597           |
| Accrued interest on variable rate loans                | -             | 1             |
| <b>Total - Accrued interest</b>                        | <b>572</b>    | <b>598</b>    |
| <b>Total – Loans outstanding</b>                       | <b>51,425</b> | <b>51,344</b> |

## 5 Loan principal

### 5a Loan principal outstanding - market valuation and weighted average interest rate

|   | 2009<br>Principal | 2009<br>Market Value | 2009<br>Weighted<br>Average<br>Interest Rate |
|---|-------------------|----------------------|--|
|   | £m                | £m                   | %  |
| Fixed rate loans                        | 50,694            | 60,280               | 5.52   |
| Variable rate loans                     | 159               | 159                  | 1.10   |
| <b>Total loan principal outstanding</b> | <b>50,853</b>     | <b>60,439</b>        | <b>5.50</b>                                  |

|   | 2008<br>Principal | 2008<br>Market Value | 2008<br>Weighted<br>Average<br>Interest Rate |
|---|-------------------|----------------------|--|
|   | £m                | £m                   | %  |
| Fixed rate loans                        | 50,671            | 59,371               | 5.72   |
| Variable rate loans                     | 75                | 75                   | 5.35   |
| <b>Total loan principal outstanding</b> | <b>50,746</b>     | <b>59,446</b>        | <b>5.72</b>                                  |

The Market Value is the net present value of all future contractual cash flows for each loan.

The weighted average period for which rates are fixed is 27.0 years (2008: 29.5 years) for fixed rate loans.

At 31 March 2009, £96 million of loans (31 March 2008: £1 million) had been confirmed, but not yet advanced. These loans are not included in the balance sheet.

At 31 March 2009, borrowers had confirmed their intention to repay £234 million of loans, which were not yet due (31 March 2008: £11 million). These repayments are not reflected in the balance sheet.

### 5b Loan principal outstanding – maturity analysis

|  | 2009<br>Principal<br>Outstanding<br>£m | 2008<br>Principal<br>Outstanding<br>£m |
|--|--|--|
| Up to 1 month / repayable on demand              | 30                                     | 16                                     |
| In more than 1 month but not more than 3 months  | 81                                     | 97                                     |
| In more than 3 months but not more than 1 year   | 1,755                                  | 537                                    |
| In more than 1 year but not more than 5 years    | 5,327                                  | 3,275                                  |
| In more than 5 years but not more than 10 years  | 5,328                                  | 5,328                                  |
| In more than 10 years but not more than 20 years | 8,228                                  | 8,671                                  |
| In more than 20 years but not more than 30 years | 6,992                                  | 8,471                                  |
| In more than 30 years but not more than 40 years | 4,422                                  | 4,325                                  |
| More than 40 years                               | 18,690                                 | 20,026                                 |
| <b>Total loan principal outstanding</b>          | <b>50,853</b>                          | <b>50,746</b>                          |

**5c Loan principal outstanding – interest rate profile**

This note indicates the period of the next re-pricing date for variable rate loans and the maturity date for fixed rate loans.

|  | <b>2009<br/>Principal<br/>Outstanding<br/>£m</b> | <b>2008<br/>Principal<br/>Outstanding<br/>£m</b> |
|--|--|--|
| Up to 1 month / repayable on demand              | 151  | 51   |
| In more than 1 month but not more than 3 months  | 107  | 115  |
| In more than 3 months but not more than 1 year   | 1,664  | 551  |
| In more than 1 year but not more than 5 years    | 5,279  | 3,223  |
| In more than 5 years but not more than 10 years  | 5,319  | 5,313  |
| In more than 10 years but not more than 20 years | 8,228  | 8,671  |
| In more than 20 years but not more than 30 years | 6,993  | 8,471  |
| In more than 30 years but not more than 40 years | 4,422  | 4,325  |
| More than 40 years                               | 18,690   | 20,026   |
| <b>Total loan principal outstanding</b>          | <b>50,853</b>                                    | <b>50,746</b>                                    |

**5d Loan principal outstanding - country analysis**

|   | <b>2009<br/>£m</b> | <b>2008<br/>£m</b> |
|---|--------------------|--------------------|
| England                                 | 40,842             | 40,383             |
| Wales                                   | 2,955              | 3,223              |
| Scotland                                | 7,056              | 7,140              |
| <b>Total loan principal outstanding</b> | <b>50,853</b>      | <b>50,746</b>      |

**6 New issue, maturity and early redemption of loan principal**

|                               | <b>2009<br/>£m</b> | <b>2008<br/>£m</b> |
|-------------------------------|--------------------|--------------------|
| New agreed loans to customers | 6,360              | 10,000             |
| Loans maturing                | (631)              | (729)              |
| Loans redeemed early          | (5,622)            | (6,434)            |
| <b>Net increase in loans</b>  | <b>107</b>         | <b>2,837</b>       |

**7 Loan principal and interest owed to National Loans Fund**

|   | <b>2009<br/>£m</b> | <b>2008<br/>£m</b> |
|---|--------------------|--------------------|
| Loan principal outstanding to customers                 | 50,853             | 50,746             |
| Loan principal repaid but not yet surrendered to NLF    | 16                 | 7                  |
| <b>Total loan principal owed to National Loans Fund</b> | <b>50,869</b>      | <b>50,753</b>      |

Loan interest owed to the National Loans Fund of £580 million at 31 March 2009 (31 March 2008: £620 million) included £1m premium (2008: £1m premium) for loans redeemed early.

**8 Analysis of cash flow**

|   | <b>2009</b>    |                 | <b>2008</b>    |
|---|----------------|-----------------|----------------|
|   | <b>£m</b>      |                 | <b>£m</b>      |
| <b>8a Reconciliation of operating income to net cash flow from operating activities</b> |                |                 |                |
| Operating income  | <b>3,174</b>   |                 | <b>2,934</b>   |
| Increase in loan principal outstanding to customers                                     | (107)          |                 | (2,837)        |
| Decrease in accrued income  | 26             |                 | 164            |
| Increase in net early redemption discounts and premiums due to NLF                      | -              |                 | 2              |
| <b>Net cash flow from operating activities</b>  | <b>3,093</b>   |                 | <b>263</b>     |
| <b>8b Return on investments and servicing of finance</b>                                |                |                 |                |
| Interest and premiums paid to National Loans Fund                                       | (3,214)        |                 | (3,087)        |
| <b>Total returns on investments and servicing of finance</b>                            | <b>(3,214)</b> |                 | <b>(3,087)</b> |
| <b>8c Financing</b>   |                |                 |                |
| Increase in loan principal outstanding to NLF   | 116            |                 | 2,642          |
| <b>Total financing</b>  | <b>116</b>     |                 | <b>2,642</b>   |
| <b>8d Analysis of cash balances</b>   | <b>2009</b>    | <b>Movement</b> | <b>2008</b>    |
|   | <b>£m</b>      | <b>£m</b>       | <b>£m</b>      |
| Cash and balances at Bank of England  | <b>24</b>      | <b>(5)</b>      | <b>29</b>      |

## 9 Risk management

Details of the PWLB's management of its risk exposure are 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<br>UK central<br>government<br>£m | Major local<br>authorities<br>£m | Parish<br>councils and<br>drainage<br>boards<br>£m | Harbour<br>boards<br>£m | Total<br>£m   |
|----------------------------------|---|----------------------------------|--|-------------------------|---------------|
| <b>2009</b>                      |   |                                  |  |                         |               |
| Cash and balances at             |   |                                  |  |                         |               |
| Bank of England                  | 24  | -                                | -  | -                       | 24            |
| Loans outstanding to customers   | -   | 51,314                           | 107  | 4                       | 51,425        |
| <b>Total gross amount</b>        | <b>24</b>   | <b>51,314</b>                    | <b>107</b>   | <b>4</b>                | <b>51,449</b> |
| Loans confirmed but not advanced | -   | 96                               | -  | -                       | 96            |
| <b>2008</b>                      |   |                                  |  |                         |               |
| Cash and balances at             |   |                                  |  |                         |               |
| Bank of England                  | 29  | -                                | -  | -                       | 29            |
| Loans outstanding to customers   | -   | 51,240                           | 100  | 4                       | 51,344        |
| <b>Total gross amount</b>        | <b>29</b>   | <b>51,240</b>                    | <b>100</b>   | <b>4</b>                | <b>51,373</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 less than £1 million overdue loan repayments, renegotiated loans or assets considered impaired at 31 March 2009 (31 March 2008: less than £1 million). All overdue loan repayments at 31 March 2009 have since been paid.

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. Given the nature of the loan counterparties with which the PWLB is dealing, the risk of default is not perceived to have increased materially during the year.

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 borrowers and the legality of loan applications are checked as necessary.

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.

Parish, Town and Community Council applicants for loans need a loan sanction from the Department for Communities and Local Government, or, in the case of Welsh councils, the Welsh Assembly Government. Drainage board applicants for loans need a loan sanction from the Department for Environment, Food and Rural Affairs.

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 2009 (31 March 2008: nil).

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. The PWLB's 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 the PWLB's lending are set on a day to day basis by the DMO, using a methodology agreed with HM Treasury.

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.

The PWLB's 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. The PWLB's cash flow requirements are forecast and monitored daily.

## **10 Related party transactions**

During the year, one of the Commissioners, Gordon Edwards, was the Corporate Director for Resources Management for one of the PWLB's borrowers, Aberdeen City Council. The council borrowed £20m of loan principal during 2008-2009, resulting in total outstanding loans to the PWLB at 31 March 2009 of £335m. Because the Board has delegated to the Secretary day-to-day responsibilities for authorising loans, Gordon Edwards had no involvement in authorising loans for Aberdeen City Council. All loans to Aberdeen City Council have been issued and managed under the same conditions as for all other borrowers.

## **11 Date of authorisation for issue**

The accounts were authorised for issue on 28 May 2009.

## ANNEX

### **ACCOUNTS DIRECTION GIVEN BY HM 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 on 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 HM 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