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Public Works Loan Board 129th Annual Report

2003–2004



The **Public Works Loan Board** is a non-Ministerial department operating within the United Kingdom **Debt Management Office**

Public Works Loan Board 129th Annual Report

2003-04

Presented to Parliament pursuant to section 5 of the
Public Works Loans Act 1875

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The Public Works Loan Board is a non-Ministerial and unpaid statutory body which originated in 1793 and became permanently established in 1817. Since 1946 it has consisted 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 reappointment.

The functions of the Commissioners, derived chiefly from the Public Works Loans Act 1875 and the National Loans Act 1968, are to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. Nearly all borrowers are local authorities requiring loans for capital purposes. The security for money borrowed by a local authority, together with interest, is charged indifferently on all its revenues; all securities created rank equally without any priority. The Commissioners are legally required before making a loan to satisfy themselves that there is sufficient security for its repayment.

Moneys are provided by Act of Parliament from the National Loans Fund. Rates of interest are determined by HM Treasury. The Board's accounts are audited by the Comptroller and Auditor General, whose reports on them are laid before Parliament.

In July 2002 the Board merged with the UK Debt Management Office (DMO), an executive agency of HM Treasury, since when the Board has been a unit of the DMO and has operated from DMO's offices. The Commissioners retain their statutory role but expect and require the Board otherwise to be subject to the same controls as apply to the DMO's operations as a whole. In so far as the Secretary to the Board relies on the effectiveness of the DMO's internal control framework, he looks to its Chief Executive, as Accounting Officer, to manage DMO to the standards expected of all departments or agencies as set out in *Government Accounting*.

The Commissioners holding office during the year were:

<i>Original appointment began</i>		<i>Current appointment ends</i>
	<i>Chairman</i>	
1994	Mr Anthony LOEHNIS, CMG Director, St James's Place Capital plc Former Director, SG Warburg Group plc Former Executive Director, Bank of England	2006
	<i>Deputy Chairman</i>	
1996	Mr John PARKES, CBE, DL Former Chief Executive, Humberside County Council President, Society of County Treasurers 1987-88	2004*
1997	Mr Brian TANNER, CBE, DL Chairman, Taunton & Somerset NHS Trust Former Chief Executive, Somerset County Council President, Society of County Treasurers 1989-90	2005
1997	Mrs Rachel TERRY Associate, HACAS Exchequer Services Limited Former Partner, Touche Ross & Company	2007
1998	Mr William MIDGLEY Former President, North East Chamber of Commerce Former Chief Executive, Newcastle Building Society Vice Chair, North East Regional Assembly	2006
1998	Mr Lawrence NIPPERS, MBE Former Director of Finance and Central Services Newport County Borough Council	2007
2000	Mrs Sarah WOOD Director of Economic and Environmental Policy Local Government Association	2004*
2001	Miss Mei Sim LAI, OBE Partner, Pridie Brewster	2005
2001	Mr Gordon EDWARDS Corporate Director for Finance and ICT Aberdeen City Council	2005
2002	Mrs Philippa FOSTER BACK Director, Institute of Business Ethics	2006
2003	Mrs Susan RORSTAD	[resigned]
2003	Mr Tony CAPLIN Non-Executive Chairman, Durlacher Plc, G.S.Technologies Ltd, Norprint Ltd, Dynamic Commercial Finance Plc. Non Executive Vice Chairman, Barts & The London NHS Trust	2007

Officials of the Board were:

Secretary **Mr Hamish Watson** *Assistant Secretary* **Mr Mark Frankel**
Manager, Loans Branch **Mr Tony Dinnage**

* Reappointed for a further period from 1 April 2004

Annual Report 2003-04

The Public Works Loan Board, pursuant to section 5 of the Public Works Loans Act 1875, makes the following Report for the financial year ended 31 March 2004.

Membership of the Board

By virtue of the Public Works Loans Act 1946 and the Royal Warrants of appointment, the terms of office of Mrs Rachel Terry and Mr Lawrence Nippers expired on 31 March 2003. By Royal Warrant dated 9 April 2003 both were reappointed for a further term of four years. The same Warrant corrected the terms of an earlier Warrant by confirming Mr Loehnis's appointment as a Commissioner and as Chairman for a further term. By a Warrant dated 20 July 2003 Mrs Susan Rorstad and Mr Tony Caplin were appointed to fill the vacancies left by the departure of Mrs Anita Frew and Mrs Rita Hale, but Mrs Rorstad resigned without taking up the appointment. Her post remains vacant.

In February two long serving officers, Mr and Mrs Pretious, left the Board's employment, with the good wishes of the Commissioners and their colleagues.

Statutory provisions for loans

The loans advanced by the Board are made from funds provided under section 4(1) of the National Loans Act 1968. Amended by section 130 of the Finance Act 1990, this sets a limit of £55,000 million on the total of loans outstanding to the Board at any one time, but also contains a provision to alter the limit further to a sum not exceeding £70,000 million.

At 31 March 2004, the balance of principal outstanding from borrowers, together with loans committed but not yet advanced, was £41.3 billion (£41,307,187,583), down from last year's figure of £44.6 billion (£44,589,264,176).

Summary of transactions

Advances amounting to £4.6 billion (£4,603,252,465) were made in 2003-04. A statement which shows advances made, repayments of principal and interest received during the year and balances outstanding, analysed according to types of borrower in England, Wales and Scotland, appears on pages 6-7 (Table 1). It includes a market valuation of the Board's portfolio. The figure is equivalent to the redemption value of the portfolio as of 31 March 2004. Appendix A (Table 14) on page 21 gives a historical summary of the Board's lending.

Table 1: Summary of transactions and balances outstanding

	In the Year 2003-2004		
	Advances £	Repayments of principal £	Interest received £
Loans on local revenues to:			
Local Authorities in England:			
County Councils	1,133,091,437	644,241,079	448,326,790
London Borough Councils	440,729,256	1,408,551,526	956,094,950
Metropolitan District Councils (a)	885,837,563	2,035,785,067	960,929,127
Non-Metropolitan District Councils	937,152,196	1,563,446,328	616,932,030
Parish and Town Councils	11,709,583	5,490,065	4,335,551
Others	172,018,677	171,136,461	105,210,399
	3,580,538,712	5,828,650,526	3,091,828,847
Local Authorities in Wales:			
Principal Councils	252,018,021	425,657,193	235,439,431
Community Councils	261,500	140,010	107,147
Others	5,221,428	4,528,587	2,529,319
	257,500,949	430,325,790	238,075,897
Local Authorities in Scotland:			
Principal Councils	763,107,590	1,609,614,545	651,686,132
Others	2,105,214	7,758,862	36,629,894
	765,212,804	1,617,373,407	688,316,026
Total loans on local revenues	4,603,252,465	7,876,349,723	4,018,220,770
Loans on property to Harbour Authorities:			
England	0	6,626	6,863
Wales	0	0	0
Scotland	0	8,972,708	683,580
Total loans on property to Harbour Authorities	0	8,979,334	690,443
Total loans on local revenues and on property	4,603,252,465	7,885,329,057	4,018,911,213
Add totals from 1817:			
To 31 March 2003	156,703,241,618	112,055,972,502	89,923,875,378
Principal remitted or extinguished:			
To 31 March 2003		58,004,941(c)	
In the year 2003-2004		0	
Total at 31 March 2004	161,306,494,083	119,999,306,500	93,942,786,591

(a) Includes authorities administering debt on behalf of former Metropolitan County Councils

(b) See page 19-Repayments in arrears at 31 March 2004

(c) Includes £55,013,916 extinguished on privatisation of water authorities

(d) Total balance outstanding: Market Value £49,328,076,736

Balances outstanding at 31 March 2004

Due but not yet paid £	Principal Not yet due £	Interest Due but not yet paid £
0	6,956,057,393	0
0	7,678,712,570	0
0	9,452,588,380	0
0	5,591,884,815	2,342
2,624	66,234,917	2,920
0	1,385,148,424	0
2,624	31,130,626,499	5,262
0	3,079,903,495	0
0	1,615,435	0
0	40,106,673	0
0	3,121,625,603	0
0	6,676,497,353	0
0	373,994,792	0
0	7,050,492,145	0
2,624	41,302,744,247	5,262
0	143,116	0
0	0	0
0	4,297,596	0
0	4,440,712	0
2,624	41,307,184,959	5,262 (b)
2,624	41,307,184,959	5,262

41,307,187,583 (d)

Loans on local revenues to:**Local Authorities in England:**

County Councils
London Borough Councils
Metropolitan District Councils (a)
Non-Metropolitan District Councils
Parish and Town Councils
Others

Local Authorities in Wales:

Principal Councils
Community Councils
Others

Local Authorities in Scotland:

Principal Councils
Others

Total loans on local revenues**Loans on property to Harbour Authorities:**

England
Wales
Scotland

Total loans on property to Harbour Authorities**Total loans on local revenues and on property****Add totals from 1817:**

To 31 March 2003

Principal remitted or extinguished:

To 31 March 2003
In the year 2003-2004

Total at 31 March 2004

Loans in respect of 2002-03

Details of loans advanced in 2002-03 were given in the Board's Annual Report for that year, but at that time local authorities were entitled to carry forward into the following year a portion of any undrawn quota. Conversely, authorities may have overdrawn their quotas on the basis of unfulfilled estimates of the amounts of credit approvals or capital consent allocations to be used.

The final figures for these two items are now available. 2002-03 quotas carried forward and drawn in 2003-04 amounted to £113.6 million (£113,643,270) and over-issues made during 2002-03 which were deductible from 2003-04 quotas amounted to £23.0 million (£23,000,696). After adjustments, the loans issued in respect of 2002-03 amounted to £5.0 billion (£4,994,233,880).

General Review of 2003-04

Determination of quotas

After consulting HM Treasury, the Office for the Deputy Prime Minister and the devolved administrations, the Commissioners decided that the quota arrangements for 2003-04 should be the same as those for 2002-03, and these are detailed below. As in previous years, the quota formula was designed, firstly, to enable the Board to meet the bulk of local authorities' requirement for new, long-term capital borrowing and, secondly, to encourage authorities to apply their set-aside provisions to meeting their credit liabilities, in line with Government intentions.

The quota entitlement for each authority was an amount equivalent to:

- *for authorities in England and Wales,*
 - basic and supplementary credit approvals used in 2003-04 *plus*
 - repayments of principal due in 2003-04 on loans from the Board;
- *for authorities in Scotland,*
 - capital consent allocations used in 2003-04 *plus*
 - repayments of principal due in 2003-04 on loans from the Board *less*
 - scheduled debt amortisation.

Loans were made at one of two sets of interest rates: Lower rates, which were determined close to the cost of Government borrowing, and Higher rates, which were close to, but just below, market rates.

For authorities in England and Wales the Lower rates applied to that part of the quota remaining after deduction of an authority's provision to meet credit liabilities unapplied at 31 March 2003 (including that used internally but not declared as applied). For authorities in Scotland the Lower rates applied to that part of the quota remaining after deduction of an authority's capital receipts unapplied at 31 March 2003.

Lending policy for the year

Lending policy remained largely unchanged from the previous year. Circular 131, issued on 27 March 2003, set out the general arrangements for 2003-04. Circular 132 explained the terms under which the Board provides clients' data direct to third parties. Circular 133 announced that the maximum period for fixed rate loans was to be increased from 25 to 30 years with effect from 1 October 2003. All the Board's current circulars are displayed on its website¹.

¹ www.pwlb.gov.uk

Lending policy from 1 April 2004

The Board continued to monitor proposed changes to the system of local government finance resulting from the Local Government Act 2003. These changes were introduced in April 2004. Circular 134 set out the lending policy that will apply from 1 April 2004. It explained that the Commissioners recognised that the Local Government Act 2003 and the Local Government Scotland Act 2003 would give local authorities additional freedoms to borrow, balanced by additional responsibilities on the chief financial officer to ensure that the authority acted prudently. The Board's new lending arrangements would support these changes, and would mean that 2003-04 would be the final year of the system of quotas. The Commissioners would continue to expect an authority undertaking financial transactions with the Board to act prudently and comply with all relevant legislation. It would remain the Commissioners' policy not to lend to an authority which had chosen to act unlawfully. In dealing with applications the Board's officers would ask the local authority for certain information to assure the Board that the authority was acting properly and within the statutory framework.

It would continue to be the Government's aim that the Board should be able to meet all of an authority's legitimate need for long-term loans. Accordingly, the Board would generally be prepared to lend to an authority up to the available capacity in its legal borrowing limit, also known as the authorised limit for borrowing.

The Board would continue to be the lender of last resort to local authorities. This would mean that, as previously, applications for loans would be considered on their merits against the terms of the Board's circulars and without regard to the authority's ability to raise funds elsewhere.

The detailed changes to be introduced from the start of 2004-05 were set out in Circular 135.

Applications for loans

During the year 671 applications for quota loans, totalling £3.5 billion (£3,514,044,884), were considered and all were approved in full.

Applications for advances were received from 353 local authorities, including 184 non-principal authorities. Out of a total of 443 principal authorities, 274 did not apply to the Board during the year, compared with 299 in 2002-03. 152 principal authorities had no debt outstanding to the Board as at 31 March 2004.

Ten authorities submitted eleven applications for additional quota to refinance market debt. All were approved, nine in full and the remaining two in slightly reduced amounts, to eliminate rounding.

Advances to parishes and community councils amounted to £11.1 million (£11,051,753). There were 13 advances to seven drainage boards in the year amounting to £1.1 million (£1,136,642). There were no advances to harbours.

Refinancing of fixed rate loans

The Commissioners continued to make available sums in addition to quota for refinancing loans from the Board in accordance with the scheme introduced in December 2001. During the year the Board made advances totalling £1.0 billion (£1,010,677,015) under these arrangements, compared with last year's figure of £631.3 million (£631,302,798).

Incidence of drawings

The timing of loan applications was, as usual, closely related to authorities' perception of current and future interest rate movements.

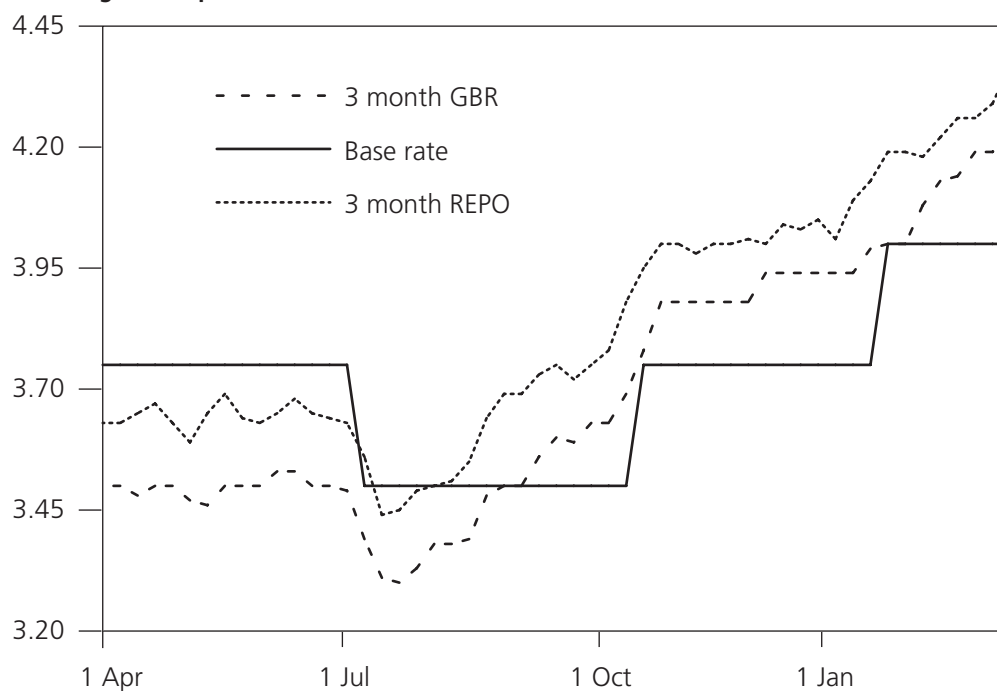
The monthly totals of drawings are listed below in Table 2. The relationship between rates of interest and the incidence of advances can be derived from Tables 2-5 on pages 10-11.

Table 2: Monthly totals of advances

£ million

	Fixed rate		Variable rate		2003-04 Total	2002-03 Total
	New	Conversions	New	Conversions		
April	26.4	49.4	16.9	55.3	148.0	409.0
May	381.1	39.8	4.5	14.0	439.4	115.5
June	201.2	39.3	0.0	4.0	244.5	280.6
July	97.5	178.8	10.1	286.6	573.0	382.2
August	58.2	16.6	0.1	136.4	211.3	994.0
September	62.9	14.1	5.0	215.5	297.5	445.4
October	86.0	72.6	76.0	199.3	433.9	408.6
November	104.1	120.0	19.3	89.6	333.0	254.7
December	176.8	154.9	13.8	3.4	348.9	202.6
January	207.6	114.6	47.0	20.0	389.2	102.3
February	136.3	73.2	30.0	29.0	268.5	612.5
March	602.8	139.2	139.7	34.3	916.0	891.8
	2,140.9	1,012.5	362.4	1,087.4	4,603.2	5,099.2

Table 3: Bank of England Repo rate and the three-month variable rates¹



¹ For explanation of rates of interest, see page 18.

Table 4: Fixed 'Lower' Rate

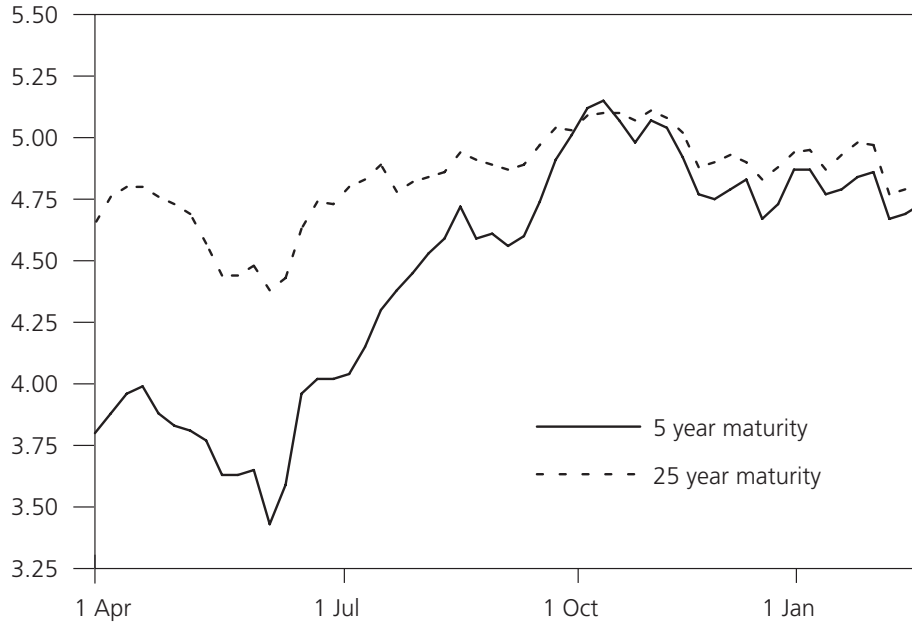
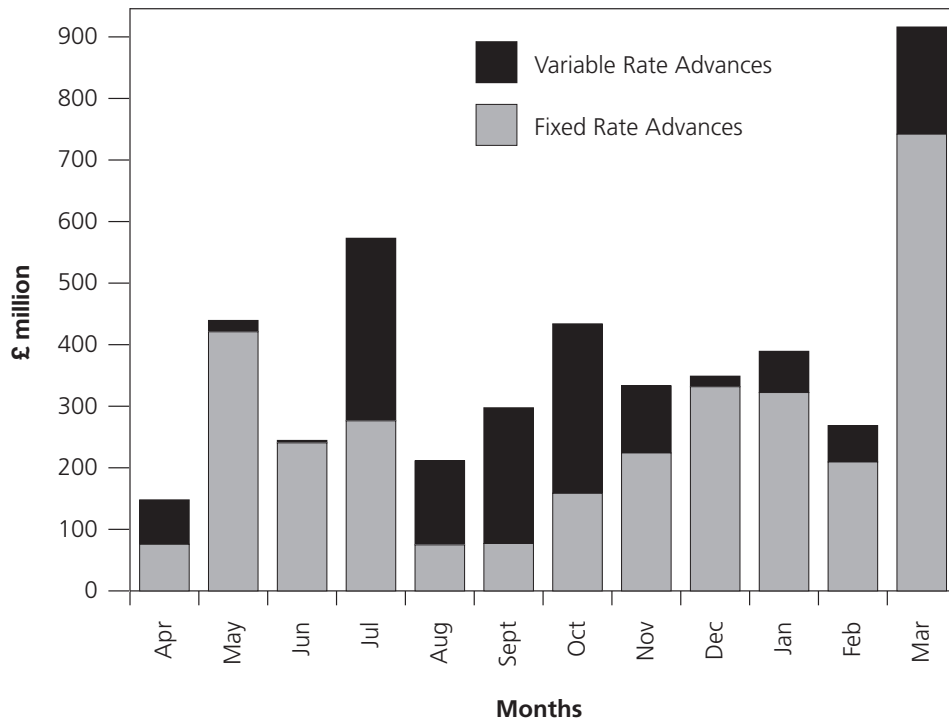


Table 5: Monthly Advances



Repayment periods

As noted above, the maximum period for fixed rate loans was extended from 25 to 30 years with effect from 1 October 2003. 27% of loans amounting to £854.8 million (£854,812,847) were taken for the maximum period. Loans amounting to £197.3 million (£197,344,099), 6% of the total, were taken for the minimum period of one year.

Non-quota A and Non-quota B loans

The Board, as lender of last resort to local government, customarily publicises the availability of non-quota loans at special 'A' and 'B' sets of rates. There have, however, been no applications for advances at either set of rates since the 1970s. In line with the wider changes for 2004-05, HM Treasury will stop determining non-quota rates from 1 April 2004.

Analysis of Transactions

As is clear from Table 6 (below), the Board was a net receiver in 2003-04. This was for the third successive year. The reasons continue to be early repayments funded by receipts from large-scale transfers of council housing together with money market institutions' ability to provide alternatives to long-term PWLB borrowing in the form of Lender's Option/Borrower's Option loans (LOBO's). These instruments have a fixed initial term, typically one to five years, after which the lender can decide at pre-determined intervals to adjust the rate on the loan.

Service performance

The Board sets itself performance targets for advancing loans and arranging premature repayments. Applications are processed according to the timetable set out in the Board's circulars and advances are normally made within 48 hours. On no occasion during the year did the Board fail to meet these targets.

Loans made in 2003-04

Gross advances, at £4.6 billion (£4,603,252,465) were 10% down on last year's unadjusted figure of £5.1 billion, and are analysed in Tables 11-13 on pages 15-17. Where appropriate, figures for the preceding year are shown for the purpose of comparison.

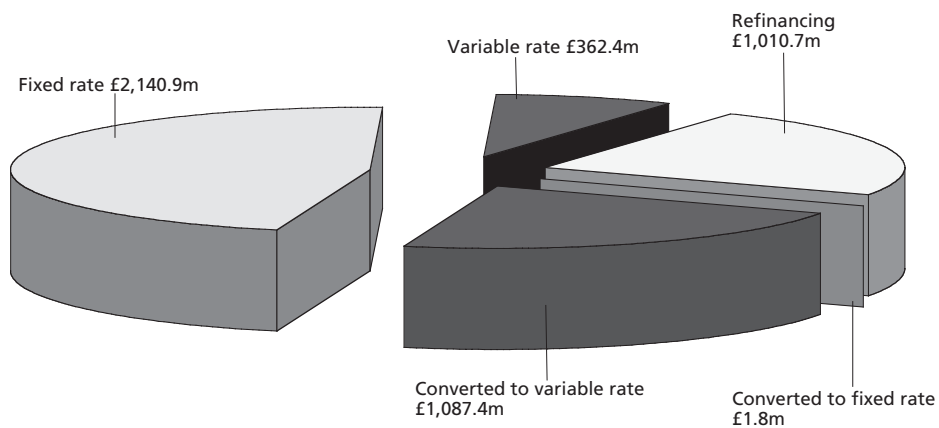
The amount of quota drawn, including loans to non-principal authorities and loans against quota carried forward from 2002-03, was £3.5 billion (£3,514,044,884). Tables 6 and 7 below show the gross and net lending for the year and the amounts advanced at the Lower and Higher rates of interest.

Table 6: Analysis of transactions

	£ million			
	Gross advances	Principal repayments	2003-04 Net lending	2002-03 Net lending
Quota loans	2,371	2,199	304	1,047
Loans in addition to quotas	132	-	132	32
Conversions	1,089	1,089	-	-
Premature payments	-	3,586	(3,586)	(3,535)
Refinancing of loans	1,011	1,011	-	631
	4,603	7,885	(3,150)	(2,456)

Table 7: Advances at Lower and Higher rates of interest

	£ million		2003-04 Total
	Lower	Higher	
Quota loans	1,151	85	1,236
Quota loans carried over from 2002-03	108	6	114
Loans in addition to quota	1,040	102	1,142
Parishes and community councils	11	-	11
Conversions	873	217	1,090
Refinancing of loans	910	100	1,010
	4,093	510	4,603

Table 8: Advances and conversions

As in previous years fixed rate loans accounted for the majority of the advances.

Tables 9 and 10 below illustrate the average rate of interest and the average repayment period for all new loans in each of the last 5 years.

Table 9: Average rate (%)

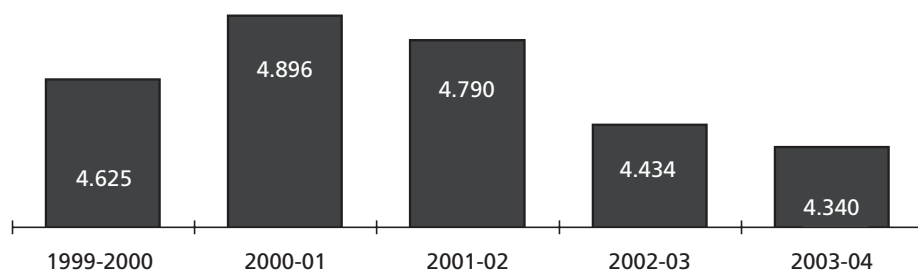
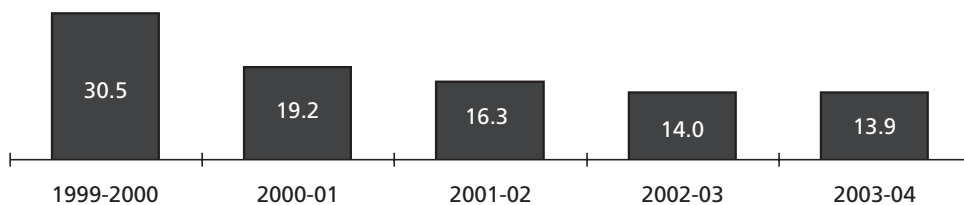


Table 10: Average period (years)



The average rate payable on variable rate loans outstanding at 31 March 2004 was 4.209%.

Table 11: Type of borrower

	Fixed rate		£ million Variable rate		Totals	
	New	Converted or Refinanced	New	Converted from Fixed	2003-04	2002-03
Local authorities in England						
County Councils	796.8	88.5	92.0	155.8	1,133.1	1,205.7
London Borough Councils	107.9	126.9	79.6	126.4	440.7	391.4
Metropolitan District Councils (a)	410.9	103.5	100.0	271.4	885.8	1,344.0
Non-Metropolitan District Councils	394.5	236.4	31.4	274.8	937.1	969.3
Parish Councils	10.8	0.7	0.2	0.0	11.7	7.7
Others	118.5	17.6	15.9	19.9	172.0	178.9
	1,839.4	573.7	319.0	848.3	3,580.4 (78%)	4,097.0 (80%)
Local authorities in Wales						
Principal Councils	114.9	0.0	38.0	99.1	252.0	440.5
Community Councils	0.3	0.0	0.0	0.0	0.3	0.0
Others	4.8	0.0	0.4	0.0	5.2	7.9
	120.0	0.0	38.4	99.1	257.5 (6%)	448.4 (9%)
Local authorities in Scotland						
Principal Councils	181.5	437.4	5.0	139.2	763.1	551.2
Others	0.0	1.4	0.0	0.8	2.1	2.6
	181.5	438.8	5.0	140.0	765.2 (16%)	553.8 (11%)
Total	2,140.9	1,012.5	362.4	1,087.4	4,603.2	5,099.2

(a) Includes authorities administering debt on behalf of former Metropolitan County Councils.

Table 12: Rates of interest and periods for repayment

	£ million					Total 2003-04
	Up to 5 years	Over 5 but not over 10 years	Over 10 but not over 15 years	Over 15 but not over 25 years	Over 25 years	
Fixed rate loans						
Rate of interest per annum						
3.25	6.8	-	-	-	-	6.8
3.30	12.3	-	-	-	-	12.3
3.35	15.4	-	-	-	-	15.4
3.40	20.1	-	-	-	-	20.1
3.45	20.8	-	-	-	-	20.8
3.50	10.0	-	-	-	-	10.0
3.55	15.6	-	-	-	-	15.6
3.60	5.5	-	-	-	-	5.5
3.65	31.0	0.5	-	-	-	31.5
3.75	45.5	-	-	-	-	45.5
3.80	38.1	4.0	-	-	-	42.1
3.85	4.0	13.0	-	-	-	17.0
3.90	13.3	0.1	-	-	-	13.4
3.95	29.8	23.1	-	-	-	52.9
4.00	-	10.6	-	-	-	10.6
4.05	10.5	17.9	-	-	-	28.4
4.10	-	3.0	-	-	-	3.0
4.15	30.0	33.4	-	0.7	-	64.1
4.20	14.9	27.5	-	10.0	-	52.4
4.25	15.8	3.0	-	10.0	-	28.8
4.30	12.0	7.5	-	29.2	-	48.7
4.35	57.9	14.2	10.0	0.5	-	82.6
4.40	35.2	3.0	10.6	39.0	-	87.8
4.45	4.5	22.1	-	237.7	-	264.3
4.50	25.5	20.2	5.0	30.2	-	80.9
4.55	44.7	9.6	-	21.9	-	76.2
4.60	36.1	64.5	-	15.7	-	116.3
4.65	2.3	18.7	0.1	35.2	-	56.3
4.70	21.6	30.0	-	27.0	256.9	335.5
4.75	19.3	37.8	-	18.7	270.6	346.4
4.80	10.0	23.5	2.3	59.7	229.2	324.7
4.85	5.0	9.7	10.0	43.7	158.2	226.6
4.90	-	8.6	0.6	32.2	50.7	92.2
4.95	-	5.8	0.1	8.6	168.2	182.7
5.00	-	4.0	10.0	31.4	167.2	212.6
5.05	-	10.5	-	13.3	31.7	55.5
5.10	-	0.4	-	43.2	-	43.6
5.15	-	3.5	3.5	1.1	-	8.1
5.20	-	0.1	15.0	-	-	15.1
5.25	-	-	-	0.3	-	0.3
5.30	-	0.9	-	-	-	0.9
	613.5	430.7	67.2	709.3	1,332.7	3,153.4
Variable rate loans	1,188.6	261.2	-	-	-	1,449.8
All loans	1,802.1	691.9	67.2	709.3	1,332.7	4,603.2

Table 13: Method and period for repayment

Method of repayment	£ million					Totals			
	Period for repayment					2003-04	2002-03		
	Up to 5 years	Over 5 but not over 10 years	Over 10 but not over 15 years	Over 15 but not over 25 years	Over 25 years				
Fixed rate loans new loans -									
Maturity	344.9	224.0	53.1	525.7	774.3	1,922.0		2,804.2	
Annuity	7.7	2.8	10.2	33.1	0.1	53.9		40.9	
Equal instalments of principal	32.6	35.9	-	96.0	0.5	165.0		125.3	
	385.2	262.7	63.3	654.8	774.9	2,140.9	47%	2,970.4	58%
Fixed rate loans converted loans -									
Maturity	200.1	152.7	3.9	53.8	557.9	968.4		663.2	
Annuity	7.6	13.5	-	0.7	-	21.8		-	
Equal instalments of principal	20.5	1.8	-	-	-	22.3		9.2	
	228.2	168.0	3.9	54.5	557.9	1,012.5	22%	672.4	13%
Variable rate loans new loans-									
Maturity	254.7	105.5	-	-	-	360.2		181.8	
Equal instalments of principal	-	2.2	-	-	-	2.2		12.0	
	254.7	107.7	-	-	-	362.4	8%	193.8	4%
Variable rate loans converted loans-									
Maturity	915.9	153.5	-	-	-	1,069.4		1,228.4	
Equal instalments of principal	18.0	-	-	-	-	18.0		34.2	
	933.9	153.5	-	-	-	1,087.4	23%	1,262.6	25%
All loans									
Maturity	1,715.6	635.7	57.0	579.5	1,332.2	4,320.0	94%	4,877.6	96%
Annuity	15.3	16.3	10.2	33.8	0.1	75.7	2%	40.9	1%
Equal instalments of principal	71.1	39.9	-	96.0	0.5	207.5	4%	180.7	3%
	1,802.0	691.9	67.2	709.3	1,332.8	4,603.2		5,099.2	

Rates of interest

The Board's interest rates are determined by HM Treasury in accordance with the National Loans Act 1968. The rates are set daily by reference to rates in the secondary market for gilts to share the benefits of Government borrowing rates within the public sector but in such a way as to ensure that the National Loans Fund makes no loss.

For variable rate loans in existence before 3 October 2000 the rates of interest are determined by reference to formulae based on the cost of Government borrowing. Since 3 October 2000, the rates for new variable rate loans, both Lower and Higher quota, have been determined by reference to a formula based on gilt general collateral repo rates.

Current and past rates of interest are displayed on the Board's website¹.

Repayments

Repayments of principal amounting to £7.9 billion (£7,885,329,058), including £1.1 billion (£1,089,207,591) for conversions, and interest payments of £4.0 billion (£4,018,911,213), were received during the year. The amount of principal repaid was even higher than last year's amount of £7.6 billion, which itself was a record.

Premature repayments

The Commissioners are normally prepared to accept the premature repayment of loans. According to the disposition of interest rates, either a premium is payable or a discount allowed. The premium or discount is equal to the discounted value of the difference between the future repayments otherwise due on the repaid loan and the payments which would be received if the balance prematurely repaid were re-advanced at the current rate payable on a new loan for a period equal to the unexpired term of the original loan.

Of the amounts of principal received during the year, £4.6 billion (£4,596,868,764),

- £3.5 billion (£3,456,981,963) represented 1,996 fixed rate loans prematurely repaid by 208 authorities
- £1.0 billion (£1,010,677,015) represented 399 loans prematurely repaid by 52 authorities using additional sums to restructure their debt portfolios, resulting in 78 new loans
- £0.1 billion (£129,209,786) represented 22 variable rate loans repaid prematurely by 11 authorities.

25 authorities became debt free making a total of 152 (34%) principal authorities with no debt to the Board.

Premiums of £874.7 million (£874,657,302) were received during the year, and discounts of £27.3 million (£27,296,714) were allowed; these amounts are included in reported totals of interest.

Option to convert loans

The option to convert a variable to a fixed rate loan or vice versa involves the repayment of the existing loan and the advance of a fresh one. 70 authorities took advantage of the option to convert 782 fixed rate loans into 154 variable rate loans. One authority converted a variable rate loan into a fixed rate loan.

Replacement of fixed rate loans amounted to £1.1 billion (£1,087,407,591) and, on these, premiums of £130.7 million (£130,663,451) were paid and discounts of £17.1 million (£17,079,009) allowed; these sums are included in totals of reported interest. One variable rate loan of £1.8 million (£1,800,000) was replaced and attracted a discount of £51.

¹ www.pwlb.gov.uk

Repayments in arrears

The amounts of repayments due but not yet paid at the end of the financial year fluctuate from year to year, depending mainly on whether 31 March falls on a banking day (which it did in 2004). All the overdue payments as shown in Table 1 on pages 6-7 were settled early in 2004-05.

Amalgamation of Repayment Dates; Loan Account Combinations

The Board offers the facility whereby an authority with a large number of interest repayment dates, often inherited as a result of successive local government reorganisations, may combine these dates into one or more sets, for convenience. Where an authority has a large number of loans with the same method of repayment, rate of interest and date of final payment, the Board offers the opportunity of combining loan accounts, for convenience. Three authorities amalgamated their payments dates, and one authority combined loan accounts.

Transfers of debt

The Board is prepared to accommodate the transfer of debt between authorities following local government reorganisation or for any other reason. During the year, three authorities transferred debt to five other authorities in respect of 81 loans amounting to £96.3 million (£96,341,797).

Fees

The scales of fees are determined by HM Treasury, after consulting the Commissioners, to cover the cost of examining applications for loans, making advances and maintaining accounts. The scales, which are kept under review, have remained unchanged since 1991.

For loans to local authorities the scale of fees was therefore as follows:

- Fixed rate loans (both new and refinanced) - 35 pence for every £1,000 or part of £1,000
- Variable rate loans - 45 pence for every £1,000 or part of £1,000
- Minimum fee - £25.

The fee for exercising the option to replace a fixed rate loan with a variable rate loan, or vice versa, was £70.

Administration

The United Kingdom Debt Management Office has prepared Resource Accounts for the financial year 2003-04 which reflect the operating income and expenditure of the Board. Costs incurred by the DMO for 2003-04 attributable to the Board but excluding shared overheads amounted to £254,000. Fee income for the year totalled £1,278,297. Any surplus will be surrendered to the Consolidated Fund. At 31 March 2004 five full-time equivalent posts were dedicated to the Board's primary functions.

Appendices

Appendix A summarises the Board's lending from 1817-18 onwards.
Appendix B lists the Board's circulars issued during 2003-04.
Appendix C lists the Tables in this Report.

By order of the Board
H D Watson
Secretary

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01 June 2004

Appendix A

TABLE 14: Historical Summary of Lending

Year	Loans advanced in year	Principal outstanding at end of year	Repayments received in year		Average rate of interest		Total long term debt of local authorities to PWLB and all other lenders at end of year	Debt to PWLB as a proportion of total local authority long term loan debt
			Principal	Interest	on new advances	on outstanding loans		
	£ million	£ million	£ million	£ million	%	%	£ million	%
1817-18	0.3	0.3	—	—	*	*	*	*
1827-28	0.6	2.1	0.3	0.1	*	3 ¹ / ₈	*	*
1837-38	0.4	2.9	0.3	0.1	*	2 ⁵ / ₈	*	*
1847-48	0.6	4.1	0.2	0.1	*	2 ¹ / ₂	*	*
1857-58	0.4	4.0	0.2	0.1	*	3 ¹ / ₈	*	*
1867-68	0.8	7.3	0.4	0.2	*	3 ¹ / ₂	*	*
1877-78	4.3	20.6	0.6	0.6	3 ¹ / ₄	3 ¹ / ₄	*	*
1887-88	1.2	28.2	1.7	1.0	3 ⁵ / ₈	3 ⁵ / ₈	*	*
1897-98	1.3	23.0	1.0	1.0	2 ⁷ / ₈	3 ¹ / ₂	*	*
1907-08	2.1	49.5	2.4	1.6	3 ⁵ / ₈	3 ¹ / ₄	*	*
1917-18	0.3	42.2	2.9	1.8	4 ⁵ / ₈	3 ³ / ₈	*	*
1927-28	39.7	239.0	5.6	11.3	5	5 ¹ / ₄	*	*
1937-38	22.5	309.3	11.5	14.9	3 ¹ / ₂	5	*	*
1947-48	246.1	626.8	13.3	16.9	3	3 ⁷ / ₈	*	*
1957-58	116.5	3,217.9	85.1	123.8	6	3 ³ / ₄	5,647.5	57.0
1967-68	465.7	4,634.9	112.5	197.9	7	4 ³ / ₄	12,743.1	36.4
1977-78	2,272.7	12,941.0	1,239.6	1,174.8	10 ¹ / ₈	9 ³ / ₈	34,264.0	37.8
1987-88	6,346.2	39,356.5	2,243.4	3,675.4	9	9 ⁷ / ₈	56,616.6	69.5
1997-98	6,394.4	42,917.2	5,563.8	4,081.2	6 ³ / ₄	8 ³ / ₄	50,355.0	85.0
1999-00	6,971.1	46,043.4	5,628.9	4,048.1	4 ⁵ / ₈	7 ³ / ₄	50,258.0	91.6
2000-01	6,101.2	47,169.5	5,629.3	4,049.6	4 ⁷ / ₈	7 ¹ / ₂	50,981.0	92.5
2001-02	4,442.3	47,045.1	4,566.7	3,684.2	4 ³ / ₄	7 ¹ / ₄	51,250.0	91.8
2002-03	5,099.2	44,589.3	7,555.1	4,134.9	4.434	7.036	50,093.0	89.0
2003-04	4,603.2	41,307.2	7,885.3	4,108.9	4.340	6.771	48,694.0†	*

Notes:

* not available

† to December 2003

Appendix B

Circulars issued during 2003-04

No. 132	16 May 2003	Provision of data to third parties
No. 133	1 September 2003	Maximum period for PWLB fixed rate loans
No. 134	15 January 2004	Lending policy from 1 April 2004
No. 135	16 March 2004	Arrangements for lending to local authorities from 1 April 2004

Appendix C

Tables and graphs in this Report

- 1 Summary of transactions and balances outstanding
- 2 Monthly total of advances, by fixed and variable rates of interest
- 3 Base lending rate and the three-month variable rate: line graph
- 4 Fixed Lower rates: line graph
- 5 Monthly advances: bar graph
- 6 Analysis of transactions
- 7 Advances at Lower and Higher rates of interest
- 8 Advances and conversions: pie chart
- 9 Average rate (%), 1999-2000 - 2003-04: bar graph
- 10 Average period (years), 1999-2000 - 2003-04: bar graph
- 11 Type of borrower (by category of loan)
- 12 Rates of interest and periods for repayment
- 13 Method and period for repayment
- 14 Historical summary



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