United Kingdom
Debt Management
Office

Public Works Loan Board

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LOANS TO DRAINAGE BOARDS

1. Powers to Lend

The Public Works Loan Board (PWLB) has the power to lend to drainage boards. It is for PWLB to decide whether to authorise a loan but it will normally lend if the terms and conditions in this document are met.

2. Borrowing Approval

A drainage board may borrow only with the consent of the Department for Environment, Food and Rural Affairs (Defra). The letter of consent specifies the maximum amount that may be borrowed, the name of the scheme and the maximum period allowed for the borrowing. A copy of the consent should be enclosed with the loan application form (DB1).

It is not a requirement that consent be taken up in a single loan. Separate applications may be made in respect of a scheme where the expenditure is spread over several months.

3. Security for Loans

Loans are secured by statute on the revenues of the drainage board.

4. Applications for loans

Applications should be made by the Clerk on form DB1, copies of which may be obtained from the PWLB website. The completed form should be accompanied by the following documentation:

i. Blank cancelled cheque or an original bank statement (bearing the details of the bank account to which the advance is to be made)
ii. Completed direct debit mandate

The application should be sent to PWLB **one week** before a loan is required. In completing form DB1 the Clerk will be required to supply the following details. Non-receipt of information will result in a delay to the advance.

- Full name of the authority
- Borrowing approval date.
- Purpose of the loan
- Sum required (must be expressed in whole pounds)
- Type of loan required
- Half-yearly interest payment days (for fixed rate loans)
- Payment frequency (for variable rate loans)
- Method of repayment
- Period of repayment
- Preferred date of advance (optional)

An application which is otherwise in order will also be considered from the affordability standpoint, i.e. whether the drainage board will be able to meet the loan charges. To be able to do so without difficulty the drainage board must be levying and collecting sufficient revenues. The application will be examined accordingly, and PWLB reserves the right to ask for further information as necessary.

On receiving an application PWLB will review and notify the Clerk (via email) when all checks are completed. The notification will invite the Clerk to telephone PWLB in line with the following timetable to agree the final terms of the loan including the rate of interest and the date for the advance.

Clerk telephones to agree terms	Day of advance of loan
Monday	Wednesday
Tuesday	Thursday
Wednesday	Friday
Thursday	Monday
Friday	Tuesday

Where a Bank Holiday intervenes the timetable moves back by the appropriate number of days. Thus if a Monday is a non-banking day and the advance is required to be made on the Tuesday, the agreement would need to be made the previous Thursday.

Following the loan agreement, a confirmation letter outlining the terms agreed will be sent to the drainage board on the day of advance via email. Any original documentation (i.e. bank statements) will be returned via post except in the case of blank cancelled cheques which will be destroyed securely by PWLB.

5. Types of Loan

There are two types of loans available from the PWLB:

(a) Fixed rate loans, on which the rate of interest is fixed for the life of each loan, and

(b) Variable rate loans, on which the rate of interest is variable at one, three or six monthly intervals. Once chosen, the roll-over period remains unchanged for the life of the loan.

6. Method of Repayment

There are two repayment methods open to Drainage Boards:

Annuity: half yearly payments where each payment is of a constant amount inclusive of principal and interest (available on fixed rate loans only)

Equal Instalments of Principal (EIP): half yearly payments where each payment consists of a constant instalment of principal plus a diminishing amount of interest, calculated on the balance of principal then outstanding

The minimum repayment period on either method is two years.

PWLB also offers Maturity loans at fixed or variable rates but only if the applicant has provided for a sinking fund to meet the repayment of the principal at the end of the term and can demonstrate it has the expertise to operate such a fund. Exceptionally, the PWLB will allow repayment of a loan by the Maturity method where the applicant expects a future receipt to repay the principal at term. Evidence will be required during the application process.

7. Interest Rates

The PWLB's interest rates are determined by HM Treasury in accordance with section 5 of the National Loans Act 1968. In practice, rates are set by the DMO on HM Treasury's behalf in accordance with agreed procedures and methodologies which are described in a DMO Technical Note.

In the case of fixed rate loans, a precise rate of interest is prescribed. In the case of variable rate loans the rate is fixed by reference to a formula. The rate of interest charged on a fixed rate loan or the formula for a variable rate loan will be that agreed by telephone two working days before the date of advance.

Fixed interest rates are set twice daily at 9:30am and 12:30pm with a separate rate calculated in 6 monthly bands for periods up to 50 years. Once a loan has been agreed, the rate of interest is fixed for the duration of the loan. Payments are at regular half-yearly intervals (e.g. 1 April and 1 October) but the borrower may choose the half-yearly days so long as the first date is no later than six months from the date of advance. Scheduled interest payments are calculated by applying half of the annual interest rate to the balance of the loan outstanding at the start of the half-year. If the date a loan is issued does not fall on one of the half-yearly days, the borrower pays an amount for the broken period from the date the loan is issued to the date of the first half-yearly payment.

Variable interest rates are set daily with separate rates for 1, 3 and 6 monthly roll-over periods, which are applicable to both EIP and Maturity loans. Borrowers choose the roll-over period of the loan at the time it is agreed. Interest payments are calculated by reference to the balance outstanding since the last loan payment and the number of days in the roll-over period.

Further information on interest rates, including a Technical Note on their calculation can be found on the PWLB website, www.dmo.gov.uk.

8. Loan Repayment Periods

A drainage board may choose the repayment period within the following limits, subject to the maximum repayment period specified in the consent letter.

		Minimum period (years)	**Maximum period** (years)
Fixed rate loans	Maturity	1	50
	Annuity or EIP	2	50
Variable rate loans	Maturity	1	10
	EIP	2	10

Although the loan consent will state the maximum period for the borrowing, a shorter period may be chosen and it is recommended that the drainage board should not borrow for longer than necessary.

9. Fees

Under the Public Works Loans (Fees) Regulations 1991, as amended, the fees payable by drainage boards in respect of advances from PWLB are:

Fixed rate loans	35p for every £1,000 or part of £1,000
Variable rate loans	45p for every £1,000 or part of £1,000

The minimum fee payable is £25.

10. Advance of Loans

A loan when authorised will be transmitted electronically to the drainage board's bank account. The sum to be transmitted will be the amount of the loan less the fee. Interest will be charged from the date of advance.

11. Scheduled Repayment of Loans

Scheduled repayments due from drainage boards are collected by direct debit, the direct debit Instruction must be completed with the DB1 form.

A board should ensure that its paying bank account has, on a scheduled repayment day, sufficient funds for the due amount. Repayment notices are issued via email 20 working days prior to each loan repayment. When a repayment date falls on a non-working day, the relevant payment will be made on the next working day. Payments notices are not invoices and scheduled repayments are due under the terms of the loan agreement irrespective.

PWLB reserves the right to charge interest on late payments, which will be at the Bank of England base rate for the day from the relevant payment date to the date on which PWLB's account is credited. The same terms apply to delayed premature repayments.

12. Premature (early) repayments

Drainage boards should not borrow for longer than necessary. Repayment amounts are calculated on the assumption that the loan will run to maturity and normally a loan is repayable only by the regular payments due under the agreed terms. PWLB cannot renegotiate a loan and, while it will usually accept a premature repayment in whole or in part, in all instances the terms **will not favour the borrower** over the National Loans Fund. Breakage costs are charged equivalent to the net present value of the outstanding amount of the loan, in line with standard actuarial practice. This means a premium will be payable when the interest rate on the loan to be repaid is higher than the current 'premature repayment' rate for a loan repayable by the same method as, and over the same period as that remaining on, the loan which it is proposed to repay. When the interest rate on the loan to be repaid is lower than the equivalent 'premature repayment' rate, a discount will be allowed. PWLB reserves the right to charge interest to delayed premature repayments, which will be at the Bank of England base rate for the day from the relevant payment date to the date on which PWLB's account is credited. Please note that early repayments will not be accepted for loans that have been in existence for less than one year or have less than one year to maturity.

13. Refinancing

PWLB will normally allow a drainage board to replace a fixed rate loan with another fixed rate loan, subject to the authority gaining a consent letter for the new borrowing. Similarly, PWLB will permit a borrower to replace a fixed rate loan with a variable rate loan or *vice versa*. However, in all cases the terms for accepting early repayment will apply, so that, again, **the terms will not favour the borrower** over the National Loans Fund. Accordingly, the cost of paying off a high-rated loan will tend to offset the financial advantage of a lower rate on the replacement loan, which loan will be subject to the fee for a new advance. Drainage boards considering refinancing debt should enquire further of the Board.

14. Early Repayments: Procedure

PWLB has discretion to accept a premature repayment:

- in whole, which means 'paying off', or redeeming, the loan in full; or
- in part ('paying down'), which reduces the debt while leaving an outstanding amount of principal remaining to be serviced.

Repayment in full ('paying off')

For reasons of timing, remittances for paying off a loan will normally be accepted only by bank transfer. Should a drainage board wish to pay off a loan, the clerk would need to telephone the PWLB to make a formal agreement to repay, and then arrange for the boards bank to remit the sum by bank transfer. PWLB follows a timetable of two working days. Accordingly, the call would need to be made two working days before the intended settlement date. On making the agreement PWLB will determine the settlement costs. This will entail calculating a premium/discount on the outstanding balance of principal according to the appropriate rate in the 'premature repayment' set of rates prevailing at the time of the agreement. Interest accruing from the previous scheduled repayment date will be included in the settlement sum as necessary. Once PWLB has quoted the amount required to pay off the debt, the board should arrange for payment to reach PWLB on the agreed date by an automated direct credit transfer to the following bank account:

Sort Code **60-70-80**

Account No. **10013288**

Account Name **PUBLIC WORKS LOAN**

PWLB will provide confirmation of the telephone agreement and will also provide confirmation once the funds are received. All confirmations will be sent via email to the clerk of the board.

Partial repayment ('paying down')

It is open to a drainage board to make a partial early repayment ('pay down'). The payment will be applied to the outstanding balance net of any premium or discount and accrued interest, and the board notified once the funds are received of the effect on its outstanding balance of principal and future scheduled repayments. For reasons of timing PWLB cannot provide figures in advance for this effect, but it would be open to the board to make its own estimate.

15. Further Information

Enquiries should be made to the contact points shown in the heading to this note. PWLB's website has a dedicated page on lending to parish councils and drainage boards which provides the following information:

- Links to related websites (Department for Environment, Food and Rural Affairs)
- Calculator for indicative interest rates and loan charges for new advances
- Application forms

In addition, PWLB will give information about its own terms, conditions and procedures. It will provide, on request, an indication of the cost of paying off a debt at the rates in force on the day. Generally, however, it is for drainage boards to take their own advice, including any necessary financial and legal advice.