United Kingdom
Debt Management Office
Eastcheap Court
11 Philpot Lane
London EC3M 8UD

www.pwlb.gov.uk

Public Works Loan Board

Tel. 020 7862 6610
Fax. 020 7862 6509
e-mail: pwlb@dmo.gov.uk

Circular No. 131

To the Chief Financial Officer
of local authorities in
England, Wales and Scotland

27 March 2003

ARRANGEMENTS FOR LENDING TO LOCAL AUTHORITIES FROM 1 APRIL 2003

LOAN FACILITIES 2003-04

1. (a) The Public Works Loan Commissioners have decided, after consulting HM Treasury and other stakeholders, that the arrangements for raising loans from the Board during the financial year 2003-04 shall be as set out below. These arrangements will be kept under review during the year.

(b) This Circular incorporates two changes announced in Circular 130. In particular:

- The interval between successive exercising of an option to convert a fixed rate loan to a variable rate loan, or vice versa, is reduced from two years to one year.
- The facility for refinancing fixed-rate loans with balances of under £100,000 is withdrawn, as it has been superseded by the wider refinancing facility which was introduced in 2001 (see Circular 125 of 6 December 2001).

It also:

- consolidates advice about how the Board should be notified of nominated dealers (see section 10(a) and of changes to bank accounts (see section 23)
- seeks to anticipate transitional arrangements which may be needed if, as foreshadowed in the Local Government Bill, the system of local government finance is changed with effect from April 2004 (see section 5).

(c) The expression 'local authority' used in this Circular includes the bodies listed in Appendix A. The Commissioners have power to lend to parish councils in England, community councils in Wales and drainage boards, but not all of the arrangements described in this Circular apply to these authorities (see section 10(l)). Any body unsure of its power to borrow from the Commissioners should contact the Board for advice.

(d) Money lent by the Board is intended to assist local authorities to meet new, long term borrowing requirements. Loans should therefore be used to finance capital payments that have already been made or will be made shortly after the advance of the loan. Loans may also be used to replace maturing debt, short-term borrowings and revenue balances in use for capital purposes.

(e) The Commissioners could not lend to an authority which had chosen to act illegally. In making an advance the Board's officers will ask the local authority certain questions to confirm that the authority is acting within relevant legal powers. The Commissioners expect any authority undertaking financial transactions with the Board to be acting prudently to comply with all applicable legislation, including that relating to anti-money laundering.

(f) The Commissioners have a statutory obligation to satisfy themselves, before advancing a loan, that the authority is able to service and repay the loan. The Commissioners will, whenever possible, endeavour to meet the dates for advance requested by authorities which apply for loans. However, in order to satisfy themselves in relation to this section, the Commissioners may on occasion require more information than that referred to in section 10(f) before a decision on a loan can be taken. In these circumstances there may be a delay in the advance of any loan that may ultimately be authorised.

Loan quotas for 2003-04

2. (a) The quota entitlement for each authority for the financial year 2003-04 will be an amount equivalent to:

   (i) for authorities in England and Wales, the sum of:

   - Basic and Supplementary Credit Approvals used in 2003-04 and
   - Repayments of principal due in 2003-04 on loans from the Board;

   (ii) for authorities in Scotland, the sum of:

   - Capital consent allocations used in 2003-04 and
   - Repayments of principal due in 2003-04 on loans from the Board less
   - Scheduled debt amortisation.

   Credit approvals referred to in subsection (a)(i) are those described in Part IV of the Local Government and Housing Act 1989. Capital consent allocations referred to in subsection (a)(ii) are those issued under section 94 of the Local Government (Scotland) Act 1973. Scheduled debt amortisation, also referred to in subsection (a)(ii), is that element of principal in loan charges from service accounts to the loans fund described in paragraph 15 of Schedule 3 to the Local Government (Scotland) Act 1975.

   (b) Quota loans will be made available at one of two sets of interest rates: 'Lower' rates, currently determined close to the cost of Government borrowing, and 'Higher' rates, currently determined close to but just below market rates.

   (i) For authorities in England and Wales the Lower rates will apply 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).

   (ii) For authorities in Scotland the Lower rates will apply to that part of the quota remaining after deduction of an authority's capital receipts unapplied at 31 March 2003.

   The provision to meet credit liabilities referred to in subsection (b)(i) is the provision which authorities in England and Wales make as described in Part IV of the Local Government and Housing Act 1989, either voluntarily or pursuant to a requirement of that Part. The capital receipts referred to in subsection (b)(ii) are that proportion of capital receipts which authorities in Scotland are required to use to redeem external debt (or to finance capital expenditure permitted by the capital allocation) as specified in the formal HRA consent for 2003-04.

   (c) An authority's quota for 2003-04 will be reduced to the extent, if any, that an overdrawing of quota has taken place in a preceding year and has not been fully adjusted. In addition, drawings in excess of entitlement at the Lower or Higher rates will also be corrected where possible. Overdrawings in respect of authorities which through reorganisation cease to exist will be allocated to the successor authorities in the same proportions in which outstanding debt to the Board is dispensed.

Additional quota

3. The Commissioners remain prepared to consider making loans in addition to the quota entitlement, to support the Government's policy that local authorities' requirements for borrowing should mostly be met by the Board and to assist the management of an authority's debt portfolio. Such loans have previously been granted, for example, to replace short-term borrowings and maturing market debt.

   When making their decision on requests for additional sums, the Commissioners will take into consideration, amongst other factors, the level of the authority's external investments. They are unlikely to agree to an additional advance if, and to the extent that, it appears to them that these investments could be used instead.

   Loans advanced in addition to the quota entitlement will be made at the Lower or Higher set of rates, as appropriate, as if they formed part of the quota.

Estimating of quotas

4. Applications for quota loans will be considered by reference to the authority's own estimates supplied in relation to its quota entitlement. These estimates should be realistic and make adequate allowance for delays to capital programmes that may result from shortages of labour or materials, bad weather and other factors. In considering a loan application the Board will judge to what extent the authority's estimates are justified. If an authority wishes a decision by the Board to be reconsidered, it should set out its reasons in a letter, which will be considered by the Commissioners, whose decision will be final.

Carry-over of 2003-04 quotas

5. The quota arrangements are designed to assist local authorities to meet their new, long-term borrowing requirements in the year to which the quota relates, but it has previously been recognised that authorities may not be able to determine the precise amounts of their quotas until after the end of the financial year. However, the Local Government Bill anticipates a new finance system for local government that may be implemented from April 2004. The Board will issue advice nearer the time setting out lending arrangements reflecting the new system, including any appropriate transitional arrangements in respect of quota entitlement.

Non-quota loans

6. If circumstances arise in which an authority needs to borrow immediately and cannot raise the money by other means, the Commissioners are prepared, subject to section 1(f), to act as lender of last resort and make loans in excess of the quota at the non-quota 'A' set of interest rates (see section 12(b)).

   An authority wishing to borrow from the Board in addition to quota but without having to demonstrate that it cannot borrow in the open market, may apply for non-quota 'B' loans. These loans, which carry a higher rate of interest (see section 12(c)), will be available, subject to section 1(f), where it can be demonstrated that additional capital finance is needed in the near future; it will not be necessary to demonstrate that money is not available in the open market.

   It has been many years since a non-quota loan was last advanced. Any authority which considers it may need such a loan should discuss its requirement with the Board.

FINAL DETERMINATION OF QUOTAS FOR 2002-03

Availability of 2002-03 quotas

7. Subject to sections 8 and 9, 2002-03 quota is available for drawing during that financial year only. Any balance remaining undrawn after 31 March 2003 will lapse.

Annual certificate in respect of 2002-03 quotas

8. Each authority which borrows from the Board or intends to draw any of its available carry-over entitlement in respect of the quota for 2002-03 will be required to provide on form LA60 (a copy of which will be sent at a later date) a statement certifying:

   (i) for authorities in England and Wales:

   - Loan debt outstanding at 31 March 2002
   - Basic and Supplementary Credit Approvals used in 2002-03 and
   - Provision to meet credit liabilities unapplied at 31 March 2002 (including that used internally but not declared as applied);

   (ii) for authorities in Scotland:

   - Loan debt outstanding at 31 March 2002
   - Capital consent allocations used in 2002-03
   - Scheduled debt amortisation and
   - Unapplied capital receipts at 31 March 2002

   The certificate should be forwarded as soon as practicable and not later than 31 October 2003. If an authority has overdrawn its quota for 2002-03, the overdrawing will be deducted from the quota for 2003-04. Drawings in 2002-03 in excess of entitlement at the Lower or Higher rate will also be corrected by adjustment where possible.

Carry-over of 2002-03 quotas

9. Up to 20% of the quota entitlement for 2002-03 may be carried over into 2003-04. Loans advanced in 2003-04 that are drawn from the available balance of carried-forward quota will bear interest at the Lower or Higher quota set of rates according to which would have been applicable had the loan been advanced in 2002-03. An authority wishing to draw the available balance of its carried-over quota should apply to the Board (having first forwarded form LA60) within the timetable detailed in Appendix B so that any loan is advanced on or before the last banking day of the financial year 2003-04.

DETAILED ARRANGEMENTS

Applications for loans

10. (a) The Board will accept applications for advances only from staff nominated by the authority's Chief Financial Officer. A form on which nominations may be made is available from the Board's website. Amendments to panels of names should be notified using a fresh form on each occasion. The form may also be used by councils that are eligible to use the Debt Management Account Deposit Facility (DMADF) operated by the UK Debt Management Office to nominate dealers for the DMADF.

(b) Applications should be made by telephone: see section 27. The Board will normally advance loans within approximately 48 hours of the receipt of a formal application (excluding weekends and bank holidays). Advances will be made in accordance with the timetable set out in Appendix B. In accordance with section 1(f) a local authority may be asked to satisfy the Board that a loan would be consistent with the principles set out therein. This may entail a delay in the advance of the loan beyond the normal 48 hours.

(c) The terms of the loan, the date of advance and the rate of interest on a fixed rate loan, or the formula for a variable rate loan, will be agreed on the telephone immediately and, subject to detailed consideration of the application and authorisation of the loan by the Commissioners, the advance will be made in accordance with the timetable set out in Appendix B. If it transpires that an authority has insufficient quota available at the Lower rates to meet an application previously agreed at those rates, the Commissioners will advance the balance at the Higher rates.

(d) If an application is made earlier than the timetable indicates, the rate of interest to be applied on a fixed rate loan, or the formula for a variable rate loan, will not be that in force at the time of application but that in force at 11.00 am two banking days before the date of advance.

(e) Formal authorisation and advance of a loan may be expected provided the application falls within the provisions of the Board's Circulars. If it is subsequently found that an application is outside the provisions, the authority will usually be informed within 24 hours (excluding weekends and bank holidays). In such a case it may not be possible for a loan to be advanced within the normal timescale, but the authority will be informed as soon as possible of the earliest date on which an advance can be made.

(f) Authorities will be required to supply their borrower number (the Board's five-figure reference number) and the following details of the loan requested:

- sum required
- method of repayment
- repayment period
- date of advance
- type of loan (fixed or variable rate loan, replacement of a fixed or variable rate loan etc)
- interest payment dates or interest payment period
- maturity date (if applicable).

The following information will also be required:

(i) estimated credit approvals or capital consent allocations to be used in the current financial year;

(ii) for authorities in Scotland only, estimated scheduled debt amortisation;

(iii) total amount unapplied as described in section 2(b);

(iv) actual credit approvals or capital consent allocations provisionally used in the current financial year;

(v) credit approvals or capital consent allocations used in 2002-03;

(vi) the sort code and account number of the authority's bank (see also section 23).

Items (i)-(iii) and (v) will not be required if the information has been submitted previously and remains unchanged.

(g) It will be a condition of the authorisation of a loan by the Board that, when making an application, an authority declares that the application is made on the basis of the contents of the Board's current Circulars, in particular, that:-

- the proposed borrowing is within its unexercised or unexhausted borrowing powers
- the authority is not seeking to borrow for the purpose of enabling investment
- at the time of the application the authority is not within the prohibition period which follows the making of a report under s114, Local Government Finance Act 1988

In making a loan the Board will rely on these declarations.

When an authority makes an application, this will be deemed as authorising the Commissioners to transmit the amount advanced less the Board's appropriate fee, unless and until the authority rescinds its agreement to this (see section 19).

(h) The amount advanced will be the sum applied for or such lesser sum as the Commissioners may authorise. If the Commissioners are not prepared to advance the full amount applied for, the authority will be informed by telephone.

(i) A letter confirming the agreed terms of the loan will be sent to the authority. The loan will be secured by an automatic charge on the revenues of that authority. In the normal course of business the authority will not receive the confirmatory letter until after the loan has been advanced.

(j) The Commissioners will not normally allow the withdrawal of a loan application.

(k) In the event of a dispute arising from these procedures the Board's decision will be final.

(l) Special arrangements apply to parish and community councils and to internal drainage boards, who should contact the Board approximately two weeks before an advance is required. Applications from parish and community councils should be made on form LC1 and from drainage boards on form DB1. Copies of both forms and of leaflets LC2 and DB2, which give further details of the arrangements for lending to parish councils and internal drainage boards respectively, may be downloaded from the Board's website (see section 26).

Types of loan

11. Two types of loan will be available from the Board:

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

(b) Variable rate loans, on which the rate of interest is variable at one, three or six monthly intervals. Once chosen, the interest payment period will remain unchanged throughout the life of the loan.

There will be an option to replace a variable rate loan by a fixed rate loan and a fixed rate loan by a variable rate loan (see section 14).

Interest rates

12. Interest rates are determined by the Treasury in accordance with section 5 of the National Loans Act 1968. In the case of fixed rate loans a precise rate of interest is prescribed, but in the case of variable rate loans the rate is determined by reference to a formula: see section 13. Subject to section 10(d), the rate of interest charged on a fixed rate loan, and the formula for a variable rate loan, will be that agreed at the time of application.

Different sets of interest rates will apply to the Board's loans, as follows:

(a) There will be a Lower and a Higher set of quota rates for both fixed and variable rate loans. A loan within quota will carry interest either at the appropriate rate for fixed rate loans or according to the formula for variable rate loans (see section 2(b)).

(b) A loan in excess of quota advanced by the Board as lenders of last resort (see section 6) will normally carry interest at the appropriate rate in the non-quota 'A' set of rates, which is 1% above the Lower set of quota rates. Exceptionally, if the Commissioners so decide, a loan may be advanced at a quota rate and set off against the authority's quota for the following year.

(c) The rate of interest prescribed for a non-quota 'B' loan will be higher than that for a quota or non-quota 'A' loan repayable by the same method and over the same period. There is a differential of 2% above the Lower set of quota rates at all levels.

Rates of interest will normally be determined daily. Fixed rates will take effect at the start of business on each working day, variable rates at 11:00 am (see section 13 below). The Treasury reserves the right exceptionally to change the rates of interest intra-day. Current and past rates are displayed on the Board's website.

Interest rate formula for variable rate loans

13. Rates for variable rate loans are set daily. Past rates are displayed on the Board's website, together with current rates once they have been determined for the day. The rate will be the cost of Government borrowing, which is defined as the General Collateral repo rate for one, three or six months, as appropriate, as fixed by the British Bankers' Association at 11.00 am on the relevant day, expressed as a yield and rounded up to the nearest multiple of 0.0625, plus 0.125.

The rate applicable to the first interest payment period of a loan will be that in force at 11.00 am on the day of the advance and, in the case of each subsequent interest payment period, will be that in force at 11.00 am on the first banking day of the subsequent period. Subject to section 10(d), the formula will be that applying when an advance is agreed, and will remain fixed for the life of the loan.

Option to replace a loan

14. There is an option to replace, either in whole or in part, a variable rate loan by a fixed rate loan or a fixed rate loan by a variable rate loan. This option, as described in subsections (a) and (b) below, may be exercised more than once provided there is an interval of at least one year between successive loans made on the exercise of the option. The waiting period between successive loans will commence on the date replacement takes place and will apply only to the amount of the loan actually replaced; any remaining part will retain an option to be replaced which, when exercised, will mark the beginning of a separate one-year waiting period in respect of the amount then replaced. Replacement loans do not count as part of a local authority's quota entitlement.

(a) Variable rate loans

An authority has the option to repay a variable rate loan, or part thereof, before maturity on any banking day and, on the same day, to take a new loan from the Board of an amount equal to the principal repaid on the terms applicable on that day to a new fixed rate quota loan within quota of the same period and subject to the same method of repayment as the replacement loan. The period of the replacement loan must not be less than the unexpired period of the original variable rate loan, subject to a minimum of one year, and may extend up to the maximum period available for new fixed rate loans.

Interest will be payable on the replacement loan at the rate in force for fixed interest rate loans, within quota, of the same term and subject to the same method of repayment as the replacement loan.

For a variable rate loan outstanding at 22 February 2000 the maximum period for the replacement fixed rate loan will be 60 years, in accordance with the terms of the advance of the original loan. The rate of interest for the replacement loan will be shown separately in the Board's Interest Rate Notice as rates on loans outside the quota made under residual contractual obligations.

Variable rate loans advanced on or before 31 March 1994 will be replaced by a fixed rate loan(s) at the appropriate rate in the Lower set of quota rates. Variable rate loans advanced on or after 1 April 1994 as Higher or Lower rate loans (see section 12) will be replaced by a fixed rate loan(s) at the corresponding Higher or Lower set of quota rates.

The method of repayment need not be the same for the replacement fixed rate loan as for the original variable rate loan and may include repayment by the annuity method. Payments of interest and, where appropriate, repayments of principal will be on the Board's normal half-yearly terms: i.e. the first interest payment after the replacement loan is taken out may be for a period of less than six months.

(b) Fixed rate loans

An authority will have the option to repay a fixed rate loan, or part thereof, having an unexpired period of not less than one year to maturity, on any banking day provided that on the same day the borrower accepts a new loan from the Board of an amount equal to the principal repaid on the terms applicable on that date to new variable interest rate loans, within quota, of the same term and subject to the same method of repayment as the replacement loan.

Fixed rate loans advanced on or before 31 March 1994 will be replaced by a variable rate loan(s) at the appropriate rate in the Lower set of quota variable rates. Fixed rate loans advanced from 1 April 1994 as Higher or Lower rate loans (see section 12) will be replaced by a variable rate loan(s) at the appropriate rate in the corresponding Higher or Lower set of quota variable rates.

The replacement loan must be for an amount equal to the principal repaid rounded down to the nearest whole number of pounds. Its term must not be less than one year and not more than the unexpired period of the fixed rate loan to be replaced, subject to a maximum period of 10 years. The replacement loan may be repaid either by equal instalments of principal or at maturity, with payments of interest, and where appropriate repayments of principal, at monthly, quarterly or half-yearly intervals. Payments will be on the Board's normal terms, i.e. the first payment will be due one, three or six months from the date of replacement.

The total amount payable in order to redeem a loan to be replaced will be calculated in accordance with the normal rules for the premature repayment of loans (see section 22 (b)). Because the amount of the replacement loan is unlikely to be the same as the amount required to redeem the replaced loan, it will be necessary for moneys to be transferred between the borrower and the Board - the repayment on the one hand and the replacement advance on the other.

To exercise the option to replace a loan the borrower must telephone the Board (see section 27) in accordance with the usual timetable for business, set out in Appendix B, to agree the terms for the replacement.

The authority will be required to state its borrower number, the total amount of principal to be repaid and to provide the following information for each loan:

(i) the interest payment dates

(ii) the loan number, and

(iii) the amount to be repaid, if less than the balance outstanding.

The terms of the replacement loan will be agreed and, on acceptance, will be deemed a binding commitment to replace on those terms and on the day indicated. The terms will include the set of interest rates (in the case of a fixed rate loan) or the formula (in the case of a variable rate loan) to be used to determine the discount rate for the repayment and the interest rate or formula for the replacement loan.

Within 24 hours of the agreement being made to replace a fixed rate loan, or as soon as practicable after 11.00am on the day when a variable rate loan is being replaced, the Board will telephone the authority to notify the total amount required to redeem the loan to be replaced, including accrued interest from the last interest payment date and taking account of the discount or premium. The authority must then arrange with its bankers for this amount to be credited on the agreed date for replacement to the 'Public Works Loans Account' (Account No. 25360000) at the Bank of England (Sort Code 10-00-00). Moneys in respect of the advance of the replacement loan will be transferred directly to the borrower's bank account via the Clearing House Automated Payment Service (CHAPS). The sum transmitted will represent the amount of the loan less the appropriate fee payable to the Board.

Method of repayment

15. (a) Fixed rate loans are repayable by one of the following methods:

(i) Annuity: fixed half-yearly payments to include principal and interest; or

(ii) EIP: equal half-yearly instalments of principal together with interest on the balance from time to time outstanding; or

(iii) Maturity: half-yearly payments of interest only with a single repayment of principal at the end of the term.

Payments will be at half-yearly intervals and the first payment must be made not more than six months from the date of advance. Interest will be 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 dates, the borrower will pay a one-off interest charge for the broken period from the date the loan is issued to the date of the first half-yearly payment date, calculated by applying a daily rate (the annual rate divided by 365) to the amount outstanding for each day in the broken period.

(b) Variable rate loans are repayable by either:

(i) EIP: equal monthly, quarterly or half-yearly instalments of principal together with interest on the balance from time to time outstanding; or

(ii) Maturity: monthly, quarterly or half-yearly payments of interest only with a single repayment of principal at the end of the term.

The first payment on a variable rate loan will be due one, three or six months from the date of advance, according to the choice of interest payment period for the loan.

(c) When a payment date falls on a non-banking day the relevant payment must be made on the next available banking day.

Duration of loans

16. An authority may choose the repayment period for a loan within the following limits:

		Minimum period (years)	Maximum period (years)
Fixed rate loans	Maturity	1	25
	Annuity or EIP	2	25
Variable rate loans	Maturity	1	10
	EIP	2	10

A maturity loan for one year will be repayable on the first anniversary of the advance. For a fixed rate maturity loan for a period of more than one year and up to the appropriate maximum shown above, the borrower may choose the maturity date.

A loan repayable by the annuity or the EIP method may be for any period between the appropriate minimum and maximum shown above subject to there being at least 4 half-yearly payments in respect of a fixed rate loan and 24 monthly, 8 quarterly or 4 half-yearly payments in respect of a variable rate loan. The Board is prepared to make loans repayable in periods other than a whole number of years, for example, 10½ years for fixed rate loans, 5¼ years for 3 months variable rate loans, etc.

The Board will not normally make loans for periods greater than 25 years. There are some residual contractual obligations in respect of existing loans which may require the Board to make loans for longer periods.

Advance of loans

17. An authority wishing an advance to be made on a specific date should say so when making the

telephone application, otherwise the loan will be advanced in accordance with the timetable set out in Appendix B.

The amount of the advance, after deduction of the Board's fee, will normally be transferred to the borrower's bank account by CHAPS.

An authority not wishing to continue with its agreement to the making of net advances will need to inform the Board accordingly and pay the requisite fee before an advance is made. This may lead to a slight delay in making an advance.

Advances to refinance fixed rate loans

18. Additional quota is available on application for replacing a fixed rate loan(s), or part thereof, by another fixed rate loan(s). The facility may be exercised more than once provided there is an interval of at least one year between successive loans.

The normal rules for loans in addition to the quota and for premature repayments apply. The agreement for the advance and for the premature repayment must be made at the same time. The new loan will be made available at the Lower or Higher rates, as appropriate, as if it formed part of the quota. The discount rate for the repayment will be the appropriate rate of interest in the Lower or Higher set of rates, according to whichever of these is applicable to the new loan.

(a) Authorities wishing to take advantage of this facility should telephone the Board (see section 27) in accordance with the usual timetable for business, set out in Appendix B, to agree the terms for the new advance and the repayment.

The authority will be required to state its borrower number, the total amount of principal to be repaid and to provide the following information for each loan being re-financed:

- interest payment dates
- loan number
- frequency of payments (annually or half yearly)

The new loan(s) must be for an amount equal to the total of principal repaid, rounded down to the nearest whole number of pounds. For each new loan the following information will be required:

- sum required
- method of repayment
- repayment period
- interest payment dates or interest payment period
- maturity date (if applicable)
- the sort code and account number of the authority's bank (see also section 23)

The following information will also be required unless it has been submitted previously and remains unchanged:

- estimated credit approvals or capital consent allocations to be used in the current financial year
- for authorities in Scotland, estimated scheduled debt to be amortised
- total amount of unapplied PCL or capital receipts at 31 March 2003

(b) The terms of the new loan and the repayment will be agreed and, on acceptance, will be deemed a binding commitment to refinance on those terms on the day indicated.

(c) Within approximately 24 hours of the agreement being made, the Board will telephone the authority to notify the total amount required to redeem the loans to be refinanced, including accrued interest from the last interest payment date and taking account of the discount or premium. The authority must then arrange with its bankers for this amount to be credited, on the agreed date for refinancing, to the 'Public Works Loans Account' (Account No 25360000) at the Bank of England (Sort Code 10-00-00). Moneys in respect of the new advance will be transferred directly to the borrower's bank account by CHAPS. The sum transmitted will represent the amount of the loan(s) less the appropriate fee payable to the Board.

To assist local authorities the Board will provide, on request, lists of loans which may be refinanced under this scheme, estimates of premiums or discounts and any other information which might reasonably be required.

Fees

19. Under the Public Works Loans (Fees) Regulations 1991 as amended, the fees payable by local authorities in respect of advances from the Board 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

The fee payable on the exercise of an option to repay a fixed rate loan or a variable rate loan and replace it by a loan on variable rate terms or fixed rate terms, as appropriate, is £70 for each replacement loan.

Payments and repayments

20. Payments of interest, and where appropriate repayments of principal, due in respect of loans will be invoiced prior to each interest payment date.

Borrowers are encouraged to permit the use of direct debiting, which is a simple and cost-effective way to make loan repayments punctually. When the due date falls on a non-banking day, the payment will be collected on the next banking day. If for any reason it is expected that a payment will not be processed by direct debit on the due date, the Notice of Loan Repayments will be marked to this effect and include instructions to make the payment by an alternative method.

An authority paying otherwise than by direct debit must ensure that payments are made in sufficient time to clear to the Commissioners' account at the Bank of England by the due date. When the relevant interest payment date falls on a non-banking day the payment must be credited to the Commissioners' account on or before the next banking day.

Late payments

21. Interest will be charged on late payments as follows:

(a) On fixed rate loans advanced before 1 March 1985, interest will be charged on the principal element of the late payment from the relevant interest payment date to the date on which the Commissioners ' account is credited. The rate of interest will be the same as that charged on the loan.

(b) On fixed rate loans advanced on or after 1 March 1985, interest will be charged on the whole of a late payment (i.e. both principal and interest). Interest will be charged from the relevant interest payment date at the appropriate Lower quota rate in force on that date for loans repayable at maturity after one year, up to the date on which the Commissioners' account is credited.

(c) On all variable rate loans, interest will be charged on the whole of a late payment from the relevant interest payment date to the date the Commissioners' account is credited and will be at the variable rate (see section 13) for one, three or six months, as appropriate, applying on the relevant payment date.

Premature repayment of loans

22. The Commissioners may, if they think fit, accept repayment of a fixed rate or variable rate loan, either in whole or in part, in advance of the date on which it is due to be made. Notification of a premature repayment should be made by telephone (see section 27) in accordance with the timetable in Appendix B. Repayment may be accepted on any banking day.

(a) The Commissioners do not normally accept premature repayments of loans which have been in existence for less than one year, or of fixed rate loans which have an unexpired period of less than one year.

(b) If the Commissioners agree to accept a premature repayment, the total amount payable in order to redeem the debt will be the present value of the remaining payments of principal and interest due to the Commissioners in respect of the loan being paid prematurely, calculated on normal actuarial principles;

the present value will be calculated at the discount rate as defined in subsection (c). The result of the calculation will be a repayment sum representing a discount or premium on the outstanding principal according to whether the discount rate is higher or lower than the quota rate.

(c) When a loan is prematurely repaid, the discount rate for a fixed rate loan will be the rate of interest in the Lower set of quota rates in force when the repayment is confirmed (see subsection (e)), for a loan for a period equal to the remaining term of, and repayable by the same method as, the loan being repaid prematurely. When no applicable rate is in force within the quota set of rates, the rate of interest for discount purposes will be the applicable rate, shown separately in the Board's Interest Rates Notices, for loans outside the quota made under residual contractual obligations. The discount rate for a variable rate loan will be the rate of interest in the Lower set of quota rates applicable to new variable rate loans having the same interest payment period as the loan being repaid prematurely. When a loan is prematurely repaid on the exercise of an option to replace a loan (see section 14), the discount rate for both fixed and variable rate loans will be the appropriate rate of interest, as indicated above, in the Lower or Higher set of rates according to which of these is applicable to the replacement loan.

(d) When notifying the Board the authority will be required to state the total amount of principal to be repaid and to provide the following information for each loan:

(i) the interest payment dates, indicating whether the loan, if on fixed rate terms, is repayable by yearly or half-yearly payments or whether interest on the loan, if on variable rate terms, is repayable at one, three or six monthly intervals;

(ii) the loan number;

(iii) the amount to be repaid, if less than the balance outstanding;

(iv) confirmation that the loan is not in one of the categories in subsection (a).

(e) The Board should be telephoned (see section 27) in accordance with the normal timetable for business (Appendix B) to agree the terms for the repayment. The terms for the repayment, including the set of interest rates to be used to determine the discount rate, will be agreed and, on acceptance, will be deemed a binding commitment to repay on those terms and on the day indicated.

(f) Within approximately 24 hours of the agreement being made in the case of fixed rate loans, and as soon as practicable after 11.00am on the date of repayment in the case of variable rate loans, the Board will telephone the authority to notify the total amount required to make the premature repayment including, when appropriate, accrued interest from the last interest payment date and taking account of the discount or premium. The authority must then arrange with its bankers for this amount to be credited on the agreed date for repayment to the 'Public Works Loans Account' (Account No. 25360000) at the Bank of England (Sort Code 10-00-00).

(g) Where an early repayment is not received on the agreed day, interest will be charged at the Bank of England ‘repo' rate prevalent at the start of business on the day for each day that the amount remains outstanding.

(h) On any question in connection with the premature repayment of a loan the decision of the Commissioners shall be final.

Confirmation of borrowers' bank details

23. From time to time borrowers change their bank accounts. Where an account is to be used to receive advances, the Board needs to be advised of, and to be able to verify, a change in good time. The Board will require written notice of a change at least five working days before the authority applies for an advance to the new account. Notice should be on the authority's headed paper and signed by two signatories who have been previously notified to the Board. It will be assumed that those members of staff already nominated as authorised dealers (see section 10(a)) will also be eligible as approved signatories for the purpose of amending bank details, unless the Chief Financial Officer informs the Board to the contrary. It will also be assumed, in the case of local authorities which use the Debt Management Account Deposit Facility (DMADF) operated by the UK Debt Management Office, that the panel of authorised dealers previously notified in that context will also apply to changes to bank accounts, again unless the Board is informed otherwise.

Where an account is used only for making repayments and the authority makes its repayments by Direct Debit, changes are normally automatically notified by the BACS system. Where an authority paying by Direct Debit wishes to change the nominated account and is unsure of the procedures it should contact the Board for guidance.

A Chief Financial Officer wishing to amend an existing list of staff eligible for notifying changes to bank accounts, for purposes of dealings with the Board or the DMADF or both, should do so on the form that may be downloaded from the Board's website.

OTHER SERVICES

Transfer of Debt

24. The Commissioners are prepared to accommodate the transfer of debt between authorities following local government reorganisation or for any other reason. Authorities wishing to transfer debt should contact the Board to discuss options well in advance of the proposed date of transfer. In any event, the written consent of all parties is required at least five working days before the transfer is due to take place.

    Applications to refinance or repay any transferred loans will be subject to the Board's usual timetable. (See Appendix B).

Other facilities

25. The Board will continue to enable borrowers with large numbers of repayment dates to combine these dates into one or more sets. In addition, where an authority has a large number of loans with the same method of repayment, interest rate and date of final payment, the Board is prepared to combine loan accounts. As a charge will be made for these services authorities should discuss their requirements with the Board beforehand (see section 27).

WEBSITE

26. The Board's website may be visited at www.pwlb.gov.uk. It contains the Board's publications, including current Circulars and Annual Report, the interest rates in force on the day and past rates. The 'What's New' page will offer a facility for viewers to be notified of changes. Out-of-sequence rate changes will be so notified.

GENERAL

27. Written enquiries relating to this Circular should be addressed to:

The Secretary
Public Works Loan Board
UK Debt Management Office
Eastcheap Court
11 Philpot Lane
London EC3M 8UD

Telephone enquiries, including loan applications, should be made to (020) 7862 6610. The Board's fax number is (020) 7862 6509 and e-mail address pwlb@dmo.gov.uk.

Loan applications may be made by telephone only.

This Circular supersedes all those issued previously by the Board.

H D Watson
Secretary

Appendix A

- the councils of all counties and districts in England
- the councils of all counties and county boroughs in Wales
- the councils of all London boroughs
- the Common Council of the City of London
- the Greater London Authority and its functional bodies
- the councils of local government areas in Scotland
- the Council of the Isles of Scilly
- the Broads Authority
- passenger transport authorities
- passenger transport executives
- police authorities
- fire and emergency planning authorities
- waste disposal authorities
- port health authorities
- other authorities in England, Wales or Scotland having power to levy council tax or to issue a precept or levy

Appendix B

Agreement of terms	Day of advance, repayment or refinancing
Friday pm/Monday am	Wednesday
Monday pm/Tuesday am	Thursday
Tuesday pm/Wednesday am	Friday
Wednesday pm/Thursday am	Monday
Thursday pm/Friday am	Tuesday