

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

Circular 134

15 January 2004

## Lending Policy from 1 April 2004

1. The Public Works Loan Commissioners have decided, after consulting HM Treasury and other stakeholders, that the Board's policy on lending to local authorities from the start of the new financial year shall be as set out below. These arrangements, which will apply from 1 April 2004 until further notice, are designed to be consistent with the new system of local government finance.
2. The Commissioners recognise that the Local Government Act 2003 and the Local Government Scotland Act 2003 ('the Acts') give local authorities additional freedoms to borrow, balanced by additional responsibilities to ensure that they act prudently. The Board's new lending arrangements will support these changes, and will mean the end of the present system of quota entitlements.
3. The Commissioners will continue to expect any authority undertaking financial transactions with the Board to act prudently and comply with all relevant legislation. It remains the Commissioners' policy that the Board will not lend to an authority which has chosen to act unlawfully. In dealing with applications the Board's officers will ask the local authority for certain information to assure the Board that the authority is acting properly and within the statutory framework: see paragraph 8 below. The Commissioners will rely on the answers to these questions and will reserve the right to ask for further information before agreeing to an advance.
4. The Board will continue to be the lender of last resort to local authorities. This will mean that, as now, applications for loans will 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.

### Lending policy

5. The Board's lending policy based on the Acts is simply stated. It continues 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 will generally be prepared to lend to an authority up to its legal borrowing limit as determined by or under the Acts.
6. Other changes will be:
  - a. Quota, both ordinary and additional, will be abolished.
  - b. There will be no need for special rules for replacing a fixed rate loan with another fixed rate loan. Authorities wishing to carry out this transaction will be able to do so using the normal procedures for the premature repayment of existing loans and the advance of new loans.
  - c. There is a separate facility for replacing a fixed rate loan with a variable rate loan, and *vice versa*. The Board will continue to offer this facility, to which a separate fee applies.
  - d. There will be no carry-over of quota entitlement from 2003-04 into 2004-05, and overdrawings or adjustments of quota will be extinguished. The Board does not envisage requiring borrowers to complete an annual certificate.

- e. HM Treasury will no longer determine 'Higher' and 'Lower' quota interest rates. Instead, there will be a single set of PWLB rates equivalent to the present Lower set.
  - f. HM Treasury will no longer determine 'non-quota' interest rates as such but will continue to set special rates for certain historical and contractual purposes. The Board's role as lender of last resort to local authorities will be unaffected.
7. Otherwise, types of available loans and methods of repayments will be unchanged.

#### **Loan applications**

8. As now, loans will be applied for by telephone. When an authority seeks a loan, the transacting officer will be asked to state the amount of the council's legal borrowing limit and the authority's 'headroom', i.e. the amount of borrowing capacity available within the legal borrowing limit. The transacting officer will also be asked two questions:

- a. Is your authority complying with the appropriate requirements of the Board's current Circulars?
- b. Is (are) the proposed loan(s) within the relevant legislation and your council's borrowing powers generally?

9. Subject to satisfactory completion of these procedures, an advance will be made in accordance with the timetable in force at the time.

#### **Other borrowers**

10. Arrangements for lending to parish and community councils, internal drainage boards and harbours will remain unchanged, including arrangements for replacing loans.

#### **Further information**

11. A further circular, setting out in full the Board's arrangements for the new financial year, will be issued shortly.

12. Enquiries may be made to (020) 7862 6610 or [pwlb@dmo.gsi.gov.uk](mailto:pwlb@dmo.gsi.gov.uk).

**H D Watson**  
Secretary

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