

Circular No. 135

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

16 March 2004

ARRANGEMENTS FOR LENDING TO LOCAL AUTHORITIES FROM 1 APRIL 2004

LENDING POLICY

1. Circular 134 dated 15 January 2004 set out the changes to the Board's policy on lending to local authorities from the start of the new financial year. The changes are designed to be consistent with the new system of local government finance. The present circular, which applies from 1 April 2004 until further notice, summarises the Board's lending policy and explains the supporting operational arrangements, a new feature of which is the calling back of the details of a loan application: see [paragraph 13 below](#).
2. The Government intends the Board to be able to meet all of a local authority's legitimate need for long-term borrowing. Accordingly, the Board will generally be prepared to lend to an authority up to the available capacity in its legal borrowing limit.
3. The Commissioners expect any authority undertaking financial transactions with the Board to act prudently and comply with all relevant legislation. The Commissioners 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 12 below](#). The Commissioners will rely on the answers to these questions, and reserve the right to ask for further information as necessary.
4. The Board is the lender of last resort to local authorities. This means that applications for loans are considered on their merits against the terms of the Board's circulars and without regard to the authority's ability to raise funds elsewhere.
5. Loans are automatically secured by statute on the revenues of the authority.
6. In the event of a dispute the final decision will be for the Commissioners.

APPLICATIONS FOR LOANS

Preliminaries

7. The Commissioners have powers to lend to local authorities as listed in [Appendix A](#). They also have powers to lend to parish councils in England, community councils in Wales, drainage boards and certain harbours. Not all the arrangements described in this Circular apply to them, but further information is available on the Board's website: see [paragraph 49 below](#). The Board will advise any body unsure of its power to borrow.
8. The Board will accept loan applications only from staff nominated by the authority's chief financial officer. Each authority must submit its list of names on a single form [LASIGNATORIES](#), available from the Board's website. Where nominations are to be added or deleted, a new, complete list of names will be required. LASIGNATORIES may also be used to nominate dealers for the Debt Management

Account Deposit Facility (DMADF) by those councils eligible for the scheme. The DMADF is run by the Board's umbrella organisation, the UK Debt Management Office.

9. A new borrower will need to confirm in writing the details of the bank account to be used to receive advances. Such notice, which will be acknowledged on request, should be on the authority's headed paper and signed by two of at least three officers notified on form LASIGNATORIES for the purpose. The same procedure should be followed where an existing borrower changes its receiving bank account.

Procedure

10. Loan applications may be made by telephone only (for contact details see [paragraph 51 below](#)). The terms of the loan and the rate of interest on a fixed rate loan or the formula for a variable rate loan (see below) will be agreed at the time and the advance made within 48 hours (excluding weekends and bank holidays) according to the timetable in [Appendix B](#). Advance of a loan may be expected provided the application falls within the provisions of the Board's circulars. An application will be deemed as authorising the Board to transmit the amount advanced less the appropriate fee (see [paragraph 28 below](#)) unless and until the authority rescinds its agreement to this. The Board will not normally allow a loan application to be withdrawn.
11. When an authority seeks a loan, the authority's dealer will be asked to state its borrower number (the Board's five-figure reference number) and then to answer the following two questions:
 - Is your authority complying with the appropriate requirements of the Board's current circulars?
 - Is this application within the relevant legislation and your council's borrowing powers?
12. The dealer will be asked the figure for the authority's legal borrowing limit and the 'headroom', i.e. the amount of borrowing capacity available within the limit at the date of the proposed advance. The dealer will then be required to provide the following details of the required loan:
 - bank account details
 - type of loan (see below)
 - method of repayment (see below)
 - sum required
 - payment dates (for a fixed rate loan) or interest payment period (for a variable rate loan)
 - repayment period or maturity date.
13. The Board will telephone the local authority as soon as practicable after the loan has been agreed and in any event within 24 hours (excluding weekends and bank holidays) to verify the details, and will send the authority a letter confirming the terms of the agreement. Normally the authority will not receive the confirmatory letter until after the loan has been advanced.

Types of loans

14. Two types of loan are available from the Board:
 - Fixed rate loans, on which the rate of interest is fixed for the duration of the loan, and
 - 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.
15. There is an option to replace a variable rate loan with a fixed rate loan and *vice versa*: see [paragraph 39 below](#). Authorities wishing to replace a fixed rate loan with another fixed rate loan will do so using the normal procedures for the premature repayment of an existing loan and the advance of a new one.

Method of repayment

16. Fixed rate loans are repayable by one of the following methods:
 - Annuity: fixed half-yearly payments to include principal and interest; or

- EIP: equal half-yearly instalments of principal together with interest on the remaining outstanding balance; or
- Maturity: half-yearly payments of interest only with a single repayment of principal at the end of the term.

17. Payments are at half-yearly intervals and the first payment date must be not more than six months from the date of advance. Interest is 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 pays 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, calculated by applying a daily rate (the annual rate divided by 365) to the amount outstanding for each day in the broken period.

18. Variable rate loans are repayable by one of two methods:

- EIP: equal monthly, quarterly or half-yearly instalments of principal together with interest on the remaining outstanding balance; or
- Maturity: monthly, quarterly or half-yearly payments of interest only with a single repayment of principal at the end of the term.

19. 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 payment period.

Interest rates

20. Interest rates are determined by HM Treasury in accordance with section 5 of the National Loans Act 1968 by reference to gilt yields. HM Treasury normally determine two sets of rates, one set of fixed rates and another for certain historical and contractual purposes. The rate for variable rate loans is determined by reference to a formula: see [paragraph 22 below](#). The rate of interest charged on a fixed rate loan, or the formula for a variable rate loan, is that agreed at the time of application.

21. Rates of interest are normally determined daily, to take effect from the start of business on the day. Fixed rates are determined at the start of business but variable rates are not determined until shortly after 11 a.m. HM Treasury reserves the right exceptionally to change rates intra-day. Current and past rates are displayed on the Board's website, see [paragraph 49 below](#).

Interest rate formula for variable rate loans

22. Interest rates for variable rate loans are calculated to refer to the cost of Government borrowing for the appropriate period. They are arrived at by taking the general collateral repo rate for one, three or six months, as appropriate, as fixed by the British Bankers' Association (BBA) about 11 a.m. on the relevant day, expressing it as a yield, rounding it up to the nearest multiple of 0.0625, and adding 0.125. Rates are calculated shortly after the BBA fixing.

23. The rate applicable to the first payment period of a loan is that in force on the day of the advance and, in the case of each subsequent payment period, is that in force on the first banking day of the period.

Duration of loans

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

		<i>Minimum period (years)</i>	<i>Maximum period (years)</i>
<i>Fixed rate loans</i>	<i>Maturity</i>	1	30
	<i>Annuity or EIP</i>	2	30
<i>Variable rate loans</i>	<i>Maturity</i>	1	10
	<i>EIP</i>	2	10

25. A maturity loan for one year is 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 maximum shown above, the borrower may choose the maturity date. The Board does not normally make loans for periods greater than the specified maximums. There are residual contractual obligations in respect of variable rate loans outstanding at 22 February 2000 which may require the Board to make loans for longer periods.

26. A loan repayable by the annuity or the EIP method may be for any period between the minimum and maximum shown above provided there are 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.

Advance of loans

27. Loans are advanced in accordance with the timetable in [Appendix B](#). The amount of the advance, after deduction of the Board's fee, will be transferred to the borrower's designated bank account by the Clearing House Automated Payment Service (CHAPS).

Fees

28. The fees payable by local authorities in respect of advances from the Board¹ 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
- Minimum fee - £25
- Replacement of a fixed rate loan with a variable rate loan or *vice versa* (see below): £70 for each replacement loan

Payments and repayments

29. Scheduled payments are invoiced before each due date. There are separate invoices for fixed rate loans and variable rate loans.

30. 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.

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

PREMATURE REPAYMENT OF LOANS

32. The Commissioners normally accept repayment of a loan, in whole or in part, in advance of the date on which the repayment is due to be made. They 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 less than a year to run. Notice of a premature repayment should be given by telephone (see [paragraph 51 below](#)) in accordance with the timetable in [Appendix B](#). Repayments are accepted on any banking day.

33. The total amount payable in order to redeem a debt is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. The present value is calculated at the rate as defined in [paragraph 34 below](#). The result of the calculation is a repayment sum representing a discount or premium on the outstanding principal according to whether the discount rate is respectively higher or lower than the loan rate.

34. When a loan is prematurely repaid, the discount rate for a fixed rate loan is the rate of interest in the fixed set of rates in force when the repayment is confirmed for a loan for a period equal to the

¹ Public Works Loans (Fees) Regulations 1991 as amended

remaining term of, and repayable by the same method as, the loan being repaid prematurely. When there is no applicable rate in the main set of fixed rates, the discount rate is the appropriate rate from the set for loans made under residual contractual obligations. The discount rate for a variable rate loan is the rate of interest applicable to new variable rate loans having the same interest payment period as the loan being repaid prematurely.

35. When notifying the Board the authority should state the total amount of principal to be repaid and give the following information for each loan:

- 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
- the loan number
- the amount to be repaid, if less than the balance outstanding
- confirmation that the loan is not in one of the categories in paragraph 32 above.

36. The Board should be telephoned (see [paragraph 51 below](#)) in accordance with the normal timetable for business ([Appendix B](#)) to agree the terms for the repayment. The terms for the repayment will be agreed and, on acceptance, will be deemed a binding commitment to repay on those terms and on the day indicated.

37. Within approximately 24 hours of the agreement being made, in the case of fixed rate loans, and as soon as practicable after 11.00 a.m. 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. The amount will take account of the discount or premium and include, when appropriate, interest accrued from the last interest payment date. The authority must then arrange with its bankers for the amount to be credited on the agreed date to the 'Public Works Loans Account' (Account No. 25360000) at the Bank of England (Sort Code 10-00-00).

38. Where an early repayment is not received on the agreed date, interest will be charged on the overdue amount in accordance with the Board's normal terms for late payments. These terms, as explained in [paragraph 43 below](#), are to charge interest at the Bank of England 'repo' rate for the day from the relevant payment date to the date on which the Board's account is credited.

OPTION TO REPLACE A LOAN

39. 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. A special fee applies: see [paragraph 28 above](#). The option, as described 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.

Variable rate loans to be replaced by a fixed rate loan

a) An authority has the option to repay a variable rate loan, in full or in part, 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 loan 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 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 of the same term and subject to the same method of repayment as the replacement loan.

b) The replacement loan must be for an amount equal to the principal repaid rounded down to the nearest whole number of pounds. Repayment of the replacement fixed rate loan is not restricted to the same method as the original loan and may be by the annuity method. Repayments 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.

c) 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 that for loans made under residual contractual obligations.

Fixed rate loans to be replaced by a variable rate loan

d) An authority has the option to repay a fixed rate loan, in full or in part, 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 of the same period and subject to the same method of repayment as the replacement loan.

e) 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 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.

40. The total amount payable in order to redeem a loan to be replaced will be calculated according to the Board's normal rules for the premature repayment of loans (see above). 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.

41. To exercise the option to replace a loan the borrower should telephone the Board (see [paragraph 51 below](#)) in accordance with the usual timetable for business, set out in [Appendix B](#), to agree the terms. The authority will need to state its borrower number and the total of principal to be repaid, together with the following information for each loan:

- the loan number,
- the interest payment dates
- the amount to be repaid, if less than the balance outstanding.

42. The terms for exercising the option, once agreed, will be binding. Within 24 hours of the agreement being made to replace a fixed rate loan, or as soon as practicable after 11.00 a.m. on the replacement 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. 25361000) at the Bank of England (Sort Code 10-00-00). Moneys in respect of the advances from the Board 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.

LATE PAYMENTS

43. For loans advanced after 31 March 2004, interest will be charged on late payments at the Bank of England 'repo' rate for the day from the relevant payment date to the date on which the Board's account is credited. The same terms apply to delayed premature repayments: see [paragraph 38 above](#).

44. For loans advanced on or after 1 March 1985 but before 1 April 2004, interest will be charged on late payments of fixed rate loans on the whole of the late payment (i.e. both principal and interest) from the relevant payment date at the appropriate fixed rate in force on that date for loans repayable at maturity after one year, to the date on which the Board's account is credited. In the case of variable rate loans, interest is charged on the whole of a late payment from the relevant interest payment date to the date on which the Board's account is credited, at the cost of Government borrowing for one, three or six months, as appropriate, in force on the relevant payment date.

45. 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 Board's account is

credited. The rate of interest will be the same as that charged on the loan.

OTHER SERVICES

46. 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 well in advance of the proposed date of transfer. In any event, the written consent of the parties is required at least five working days before the transfer is due to take place.
47. 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 by telephone or e-mail (see [paragraph 51 below](#)).
48. The Board is normally prepared to cooperate with requests from local authorities to provide their financial advisers with portfolio data in electronic form, subject to the Board being provided with the borrower's signed consent on headed paper stating to whom the data should be sent. If the arrangement is for information to be provided periodically until further notice, the data will normally be supplied four times a year soon after the end of each quarter. Borrowers must tell the Board if they wish to withdraw from the arrangement, as the Board will discontinue supplying information only if instructed to do so. The Board will make every effort to ensure the accuracy of the data provided, but assumes no liability for errors or for the use made of the data.

WEBSITE

49. The address of the Board's website is www.pwlb.gov.uk. It includes the Board's Circulars, Annual Reports, current and past interest rates. The 'What's New' page offers a facility for viewers to be notified of changes. Any intra-day rate changes will be so notified.

CONTACTS

50. Written enquiries relating to this Circular, or wider suggestions about the Board's services, may be addressed to:

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

51. 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.gsi.gov.uk.

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

Friday pm/Monday am
Monday pm/Tuesday am
Tuesday pm/Wednesday am
Wednesday pm/Thursday am
Thursday pm/Friday am

Day of advance or repayment

Wednesday
Thursday
Friday
Monday
Tuesday

This version has been superseded