

LENDING ARRANGEMENTS

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INTRODUCTION

1. Circular 138 dated 8 August 2005 set out the Board's lending arrangements for the financial year 2004/05 onwards. The present Circular, which applies from the date of issue until further notice, updates the Board's policies and operational arrangements. It replaces Circulars 132 and 138, and consolidates the changes announced in Circulars 139-143.
2. The Board has powers to lend to local authorities as listed in [Appendix A](#). It also has powers to lend to parish councils in England, community councils in Wales, and internal drainage boards. Not all the arrangements described in this circular apply to them, but further information is available on the Board's website and on request (see [paragraph 50](#) and [paragraph 51](#)). The Board will advise any entity unsure of its power to borrow.

¹ revised to take account of Circular 145; revised text shown in red

GENERAL POLICY

3. 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 is prepared to lend to an authority up to the available capacity in its legal borrowing limit.
4. The Board expects an authority undertaking financial transactions to act prudently and legally. The Board will not lend to an authority which has chosen to act unlawfully, and is required before making a loan to be satisfied that there is sufficient security for its repayment. In dealing with applications the Board's officers will ask the local authority for assurances that the authority is acting properly and according to statute (see [paragraph 11](#)). The Board will rely on the answers to these questions. The Board will not refuse an application if satisfied that it conforms to its lending arrangements. To that extent, the Board can be relied on as lender of last resort.
5. Loans are automatically secured by statute on the revenues of the authority.
6. The Board is generally open to requests to make early repayments or enter into transactions to refinance loans, but in any case the terms will not favour the borrower over the National Loans Fund.
7. Where appropriate, the Board will give advance notice of changes to its policies and practices and will endeavour to consult stakeholders beforehand. However, in the event of a dispute arising for whatever reason the final decision will be for the Commissioners.

APPLICATIONS FOR LOANS

Preliminaries

8. The Board will accept loan applications only from staff nominated by the authority's chief financial officer. An authority must submit its list of names on a single form LASIGNATORIES, available from the Board's website. Where nominations are to be refreshed, a new, complete list of names will be required. LASIGNATORIES may also be used to nominate signatories authorised to notify receiving bank account details to the Board (see [paragraph 9](#)).
9. A new borrower will need to confirm in writing the details of the bank account to be used to receive advances. Such confirmation 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 and only within the Board's hours of business, 9.30-16.15 hours (see [paragraph 51](#)). The terms of the loan and the rate of interest on a fixed rate loan – or the formula for a variable rate loan (see [paragraph 19](#)) – will be agreed at the time and the advance made within 48 hours (excluding weekends and bank holidays) according to the timetable 'trade+2' as set out in [appendix B](#). Advance of a loan may be expected provided the application falls within the Board's lending arrangements. An application will be deemed as authorising the Board to transmit the amount advanced less the appropriate fee (see [paragraph 28](#)). The Board will not normally allow a loan application to be withdrawn.
11. When a borrower seeks a loan, its authorised dealer will be asked to state its borrower number (the Board's five-figure reference number) and then to answer the following **three** 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?
 - **By when does the Director of Finance expect the loan to be entirely applied to expenditure? (The answer should be expressed in terms of the number of months from the point of application. The response to this question should be agreed in advance with the responsible finance officer.)**

12. The authorised 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, which is calculated by deducting the authority's existing debt from the legal borrowing limit. The dealer will then be asked to provide the following details of the required loan:

- type of loan: i.e. whether fixed or variable (see [paragraph 14](#))
- repayment or amortisation method (see [paragraph 15](#) and [paragraph 16](#))
- sum required
- date of final payment, which will coincide with a repayment date
- where not apparent from the date of final payment: repayment dates, in the case of a fixed rate loan, or interest payment frequency, in the case of a variable rate loan (see [paragraph 15](#) and [paragraph 16](#))
- Sort code and number of the receiving bank account

13. Staff from the Board's offices will telephone the local authority as soon as practicable after a loan has been agreed, and in any event within 24 hours (excluding weekends and bank holidays) to verify the details. The Board will send the authority a letter confirming the terms of the agreement. In the normal course of business the authority will not receive the letter until after the loan has been advanced.

Type of loans by interest rate

14. Two types of loan according to interest rate are available from the Board:

- Fixed rate loans, on which the rate of interest is fixed for the life of the loan and interest is payable at half-yearly intervals;
- Variable rate loans, on which the rate of interest is variable at one, three or six monthly intervals. The interval is at the choice of the borrower but once chosen remains the same for the life of the loan.

Type of loans by method of repayment or amortisation

15. **Fixed rate loans** are repayable by one of three methods:

- Annuity or Equal Repayments (ER): fixed half-yearly payments to include principal and interest; or
- Equal Instalments of Principal (EIP): equal half-yearly instalments of principal together with interest on the balance outstanding at the time; or
- Maturity: half-yearly payments of interest only with a single repayment of principal at the end of the term.

Repayments are at half-yearly intervals, with an initial broken period as necessary (see [paragraph 24](#)).

16. **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 balance outstanding at the time; or
- Maturity: monthly, quarterly or half-yearly payments of interest only with a single repayment of principal at the end of the term.

Repayments are at one, three or six monthly intervals from the date of advance, at the borrower's choice (see [paragraph 14](#) and [paragraph 25](#)).

Interest rates

17. Interest rates are determined by the UK Debt Management Office (DMO) on behalf of HM Treasury in accordance with section 5 of the National Loans Act 1968. Those for the advance and repayment of fixed rate loans are determined by reference to gilt yields (see [paragraph 18](#)), those for variable rate loans by reference to a formula (see [paragraph 19](#)). There are two intra-daily re-determinations of fixed rates, published at 9.30 a.m., for start of business, and 12.30 p.m. The rate of interest charged on the advance of a fixed rate loan, the discount rate applied to the repayment of such a loan, and the formula for a variable rate loan, is that agreed at the time of application. Variable rates are not

determined until shortly after 11 a.m. on the day. The DMO reserves the right to make further, unscheduled intra-daily rate changes, or alter the formula for variable rates, as necessary. The interest rate notice in force and past rates are displayed on the Board's website (see [paragraph 50](#)).

Interest rate formulae

18. Rates for the advance or repayment of fixed rate loans are normally calculated by applying a margin to the gilt par yield curve, to ensure that the PWLB does not on-lend at rates lower than those at which the Government could notionally borrow by issuing gilts. When determining the loan rates for advances a margin is added to gilt yields, to mitigate risks to the NLF. Complementarily, a margin is subtracted when determining repayment rates.
19. Interest rates for variable rate loans are determined by reference to the cost of Government borrowing for the appropriate period. They are calculated by taking the general collateral repo rate for one, three or six months, as appropriate, as fixed by the British Bankers' Association (BBA) at 11 a.m. on the day, expressing it as a yield, rounding it up to the nearest multiple of 0.05, and adding 0.10. Rates are calculated shortly after the BBA fixing.
20. The DMO reserves the right to alter formulae, margins or other parameters, exceptionally without notice.

Repayments, final and scheduled

21. An authority may choose the final repayment date for any loan within the following limits:

		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

22. A loan repayable by the Annuity or the EIP method may be for any period between the minimum and maximum 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.
23. A loan will terminate on a repayment date. A maturity loan for one year is repayable on the first anniversary of the advance; accordingly, the one intermediate repayment will fall six months from the date 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.
24. Payments of a **fixed rate loan** are at half-yearly intervals. 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 repayment dates, interest for the broken period will be calculated on the Actual/Actual basis (see [Appendix C](#)).
25. Repayment of a **variable rate loan** will be made at one, three or six monthly intervals from the date of advance, according to the choice of payment period. 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, that in force on the first banking day of the period. Once chosen, the repayment interval applies for the life of the loan.
26. The Board is prepared to make loans repayable over 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. Take, for example, a loan agreed on Tuesday 15 January and maturing on 22 July the following year. The advance would be made on 17 January, assuming no non-banking days intervene. The scheduled

repayments would fall on 22 January and 22 July in the year of advance and the following year, making four repayments over the life of the loan. The term of the loan would be slightly over 18 months, and the interest rate taken from the band 'over 1½ years but not over two years'.

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 transmitted to the borrower's designated bank account by automated credit transfer.

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 approximately four weeks before each due date.

30. The Board prefers borrowers 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 exceptionally a payment cannot 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 bank account (see [Appendix D](#)) 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. Late payments may be subject to a late interest charge (see [paragraphs 44-47](#)).

PREMATURE REPAYMENT OF LOANS

32. The Board has discretion to accept repayment of a loan, in whole or in part, in advance of the date on which the repayment is due to be made. It will not normally accept premature repayment of any loan which has been running for less than one year or of a fixed rate loan which has less than a year to run. Notice of a premature repayment should be given by telephone (see [paragraph 51](#)) in accordance with the timetable in [Appendix B](#).

33. The terms for accepting an early repayment are designed not to favour the borrower over the National Loans Fund. The total amount payable in order to redeem a debt is the present value (PV) of the remaining payments of principal and interest, calculated on normal actuarial principles using the rate defined in [paragraph 34](#). The result of the calculation is a settlement 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, plus interest accrued from the previous scheduled repayment date if applicable.

34. When a fixed rate loan is prematurely repaid, the discount rate is the rate in the 'premature repayment' set of rates in force when the repayment is agreed for a notional loan for a period equal to the remaining term of, and repayable by the same method as, the loan being repaid prematurely. 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

¹ Public Works Loans (Fees) Regulations 1991 as amended.

the following information for each loan:

- 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.

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

36. For fixed rate loans, normally the Board will inform the authority of the settlement amount at the time of agreement. For variable rate loans the authority will be informed of the settlement amount as soon as practicable after 11 a.m. on the settlement date. Figures will be confirmed in writing on request. The amount will take account of the discount or premium and include, when appropriate, interest accrued from the last payment date. The authority must then arrange with its bankers for the amount to be credited on the agreed settlement date to the Board's bank account ([Appendix D](#)).

37. 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 (see [paragraph 44-47](#)).

REFINANCING AND CONVERSION OF LOANS

38. It is open to borrowers to replace one loan with another, subject to the Board's usual terms. A borrower wanting to restructure a loan or loans may do so according to the general arrangements set out in this circular, making the early repayment and seeking a replacement advance on dates to be agreed with the Board. Because the Board treats the two arms of the transactions - the inward and outward flows - as separate, amounts are transmitted gross.

Option to convert 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](#)). 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 ('variable rate conversion')

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 accordingly may be by the annuity method even if the loan being replaced is a maturity loan. 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.

Fixed rate loans to be replaced by a variable rate loan ('fixed rate conversion')

c) 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.

d) 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 [paragraphs 32-37](#)). 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](#)) in accordance with the usual timetable for settlement, 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 amount to be repaid, if less than the balance outstanding

42. The terms for exercising the option, once agreed, will be binding. Where the agreement is to replace a fixed rate loan, normally the Board will inform the authority at the time of 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. For a variable rate loan the authority will be informed of the settlement amount as soon as practicable after 11 a.m. on the settlement date. Figures will be confirmed in writing on request. The authority must then arrange with its bankers for the appropriate amount to be credited on the agreed date for replacement to the Board's bank account by automated direct credit transfer (see [Appendix D](#)). The sum transmitted will represent the amount of the loans less the appropriate fee payable to the Board.

43. Moneys in respect of the advances from the Board will be transferred directly to the borrower's bank account by automated credit transfer. The sum transmitted will represent the amount of the loan less the appropriate fee payable to the Board.

LATE PAYMENTS

44. The Board reserves the right to charge interest on late payments.

45. 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 37](#)).

46. 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 at the start of business 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.

47. 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.

TRANSFER OF DEBT

48. The Board is 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. When transfers are by agreement, the consent of the parties is required at least five working days before the transfer is due to take place.

FREEDOM OF INFORMATION

49. The Public Works Loan Board is subject to the Freedom of Information Act 2000, which establishes a general right of access to information held by public authorities. Further details are available from the Board's website (see [paragraph 50](#)) or on request. Where the Board provides information to a third party under the terms of the Act, it may as a courtesy notify the borrower of the information provided, but in keeping with its obligations under Data Protection legislation will not identify the person making the request.

WEBSITE

50. The Board's website, www.pwlb.gov.uk, is within the website of the UK Debt Management Office, www.dmo.gov.uk. The site includes circulars, a calculator of indicative repayment costs, Annual Reports, current and past interest rates etc. The 'What's New' page offers a facility for viewers to be notified of changes. Unscheduled intra-day rate changes are so notified.

HOURS OF BUSINESS; ENQUIRIES

51. Loan applications may be made by telephone only (0845 357 6610). The Board will not accept telephone business before 9.30 hours or after 16.15. Calls are recorded for training and monitoring purposes. Routine enquiries, or wider suggestions about the Board's services, may be made in the first instance by e-mail (pwlb@dmo.gsi.gov.uk), where appropriate quoting the Board's five-digit reference number.

Mark Frankel
Secretary

This version has been superseded

Appendix A: Local Authorities

- 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
- National Park Authorities established under the Environment Act 1995.
- Integrated Transport Authorities
- passenger transport executives
- police authorities
- fire & rescue authorities
- waste disposal authorities
- port health authorities
- Regional Transport Partnerships in Scotland
- other authorities in England, Wales or Scotland having power to levy council tax or to issue a precept or levy

Appendix B: Timetable For Settlement

Agreement of terms

Monday
Tuesday
Wednesday
Thursday
Friday

Day of advance or repayment

Wednesday
Thursday
Friday
Monday
Tuesday

Appendix C: Calculation of Interest on Initial Broken Period

The interest due on an initial broken period is calculated on the basis of Actual/Actual. This is calculated as:-

$$\text{Interest} = \frac{\text{Amount of Loan} * \frac{1}{2} \text{ Yearly Interest Rate} * \text{Days (First Payment Date - Advance Date)}}{\text{Days (First Payment Date - Notional Previous Payment Date)}}$$

Worked examples

1. £1 million Loan advanced 15 October 2009 at a rate of 3%; repayments to be made 31 March / 30 September

$$\text{Interest} = \frac{\text{Amount of Loan} * \frac{1}{2} \text{ Yearly Interest Rate} * \text{Days (First Payment Date - Advance Date)}}{\text{Days (First Payment Date - Notional Previous Payment Date)}}$$

$$= \frac{1,000,000 * 0.015 * \text{Days (31 March 2010 - 15 October 2009)}}{\text{Days (31 March 2010 - 30 September 2009)}}$$

$$= \frac{1,000,000 * 0.015 * 167}{182} = \text{£}13,763.74$$

2. £1 million Loan advanced 16 April 2010 at a rate of 3%; repayments to be made 31 March / 30 September

$$\text{Interest} = \frac{\text{Amount of Loan} * \frac{1}{2} \text{ Yearly Interest Rate} * \text{Days (First Payment Date - Advance Date)}}{\text{Days (First Payment Date - Notional Previous Payment Date)}}$$

$$= \frac{1,000,000 * 0.015 * \text{Days (30 September 2010 - 16 April 2010)}}{\text{Days (30 September 2010 - 31 March 2010)}}$$

$$= \frac{1,000,000 * 0.015 * 167}{183} = \text{£}13,688.52$$

Appendix D: Board's Bank Account

Payments should be credited as necessary to:

'Public Works Loans Account' (Account No. **25360000**) at the Bank of England (Sort Code **10-00-00**).