



United Kingdom  
Debt Management  
Office

**PWLB**

**Annual Report and Accounts 2020-2021**

**PWLB Annual Report and Accounts 2020–2021**

Presented to Parliament pursuant to  
Section 3(6) of the National Loans Act 1968

Ordered by the House of Commons  
to be printed on 1 July 2021



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ISBN: 978-1-5286-2553-1

CCS0421452664 07/21

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office.

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# Performance report

The purpose of the overview is to provide sufficient information to understand the PWLB, its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

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## Overview

### Accounting Officer's statement

During 2020-2021, the Public Works Loan Board function ("the PWLB") continued to provide a cost-effective lending service to local authorities, meeting their requirements in terms of the amount of financing and the timing and duration of their borrowing. The function and powers to lend are held by HM Treasury, who delegate responsibility for the operation of the reporting entity known as the PWLB lending facility to the Accounting Officer of the United Kingdom Debt Management Office (DMO).

The PWLB advanced 264 new loans with a value of £2,861 million to local authorities in the year. The majority (£2,014 million) of these loans were maturity loans. However, the PWLB also continued to offer both annuity and equal instalments of principal loans, constituting £340 million and £507 million respectively of loans advanced in 2020-2021; therefore providing a flexible range of lending alternatives to local authorities.

As well as advancing new loans, during the year the PWLB collected interest payments on more than 16,000 loans, which had a carrying value of £86,349 million at 31 March 2021. In 2020-2021, £3,079 million of interest income was generated on PWLB loans across more than 30,000 interest and loan repayments by borrowers.

The PWLB continued to offer both fixed and variable rate loans during the year, at rates calculated by the DMO using the methodology specified by HM Treasury. The PWLB also continued to offer PWLB loans at concessionary rates to eligible local authorities as specified by HM Treasury.

HM Treasury published a consultation in March 2020, designed to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing and regeneration under the prudential regime. The response to the consultation was published on 25 November 2020, announcing new lending arrangements which enable HM Treasury to suspend a loan application for further review if it considers that the application may fall outside its specified lending arrangements.

I would like to express my sincere appreciation to all DMO staff, and colleagues at HM Treasury, for their professionalism, commitment and support throughout the year. The successes in providing PWLB loans would not have been possible without their valued contribution.

**Sir Robert Stheeman**

Accounting Officer

17 June 2021



## Purpose and principal activities of the PWLB

**This publication presents the Annual Report and Accounts of the PWLB function for the year ended 31 March 2021. The accounts have been prepared by the DMO under a direction issued by HM Treasury in accordance with Section 3(6) of the National Loans Act 1968 (the 1968 Act). In addition, the publication meets the duty of the Lords Commissioners of HM Treasury, under section 5(3) of the Public Works Loans Act 1875 (the 1875 Act), to report annually to Parliament.**

The Report and Accounts show PWLB loans advanced by HM Treasury in the financial year and the repayments received from borrowers. The accounts do not show the resources that have been used to deliver the PWLB's functions, which are reported in the United Kingdom Debt Management Office Report and Accounts 2020-2021.

### Background to the PWLB

The Public Works Loan Board was a statutory body that originated in 1793 and became permanently established in 1817. It dated in its more recent form from the 1875 Act. Between 1946 and 2020 it consisted of a maximum of 12 Commissioners appointed by the Crown to hold office for four years. Under the 1875 Act, they were not allowed to receive any salary, fee or emolument. More recently, these posts were held in order that the function of central government lending to local government complied with statute. In practice, the PWLB function has been administered by the DMO since July 2002. Since 25 February 2020, the DMO has administered the function on behalf of HM Treasury after the relevant powers to issue PWLB loans were formally transferred from the Commissioners to HM Treasury under the Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020.

Monies for PWLB lending are provided for by Act of Parliament and drawn from the National Loans Fund. The National Loans Fund is the government's main borrowing and lending account and is administered by HM Treasury.

Since 25 February 2020, HM Treasury has delegated the administration of the function to the Chief Executive of the DMO, who is also accountable for the activities of the new statutory official, the Public Works Loans Secretary, where the latter is a member of DMO staff.

Borrowers are local authorities (plus a small number of other eligible public bodies) requiring loans mainly for capital purposes. While HM Treasury is legally required before making a loan to satisfy itself that there is sufficient security for its repayment, loans to local authorities are automatically secured by statute on the revenues of the authority, which removes the need for reference to specific revenues, assets or collateral.

PWLB loans form part of the credit risk profile of the National Loans Fund. The management of credit risk is described in note 9 to the accounts.

### Governance of the PWLB

Since 25 February 2020, HM Treasury has had the relevant powers (previously held by the Public Works Loan Commissioners) to issue PWLB loans to local authorities. Major local authorities have been able to borrow (mainly for capital projects) without government consent since 2004, provided they determine they can afford the borrowing costs. To this end, local authorities in England are required to have regard to four statutory codes when making these decisions. These are the Prudential Code and the Treasury Management Code, both of which are published by the Chartered Institute of Public Finance and Accountancy, as well as the statutory guidance documents on investments and minimum revenues provision, which are published by the Ministry of Housing, Communities & Local Government. Local authorities in England must have regard to these codes regardless of whether they borrow from HM Treasury, through the PWLB lending facility, or any other lender. HM Treasury requires assurance from the authority that it is borrowing within relevant legislation and its borrowing powers, and in accordance with the lending terms and guidance of the PWLB lending facility.

HM Treasury also has relevant powers to issue PWLB loans to town and parish councils (in England) and

town and community councils (in Wales). Applicants will need a borrowing approval from the Ministry of Housing, Communities & Local Government, for which they should approach their County Association of Local Councils or, in the case of Welsh councils, the Welsh Government. HM Treasury, through the PWLB lending facility, also provides loans to drainage boards. Applicants for loans will need a loan consent from the Department for Environment, Food & Rural Affairs. The approvals must be in place before loan applications can be made to the DMO on behalf of HM Treasury.

Operationally, the PWLB function is administered as part of the DMO, an executive agency of HM Treasury, and staff working on PWLB lending activities are employees of the DMO. The operations of the PWLB lending facility are subject to the same control framework as the DMO's operations as a whole.

The DMO operates the PWLB lending facility within policies, terms and arrangements determined by HM Treasury.

Responsibility for local authority spending and borrowing decisions lies with the locally-elected members of each council, who are democratically accountable to their electorates. Records of PWLB loans to local authorities are available for public scrutiny via the DMO website. Local authorities are not required to provide information on the purpose of a loan when borrowing from the PWLB lending facility.

### Statutory provisions for loans

Section 3(11) and Schedule 4 of the 1968 Act authorises HM Treasury to make loans to any local authority in Great Britain for any purpose for which the authority has power to borrow and to certain other authorities and persons for limited purposes. HM Treasury also has the powers to lend to certain harbours, but as a matter of government policy no longer does so.

The amount which HM Treasury may lend, or undertake to lend, is provided by Section 4 of the 1968 Act, which permits HM Treasury to make loans up to a limit of the aggregate of:

- any commitments of HM Treasury outstanding in respect of undertakings entered into by them to grant local loans; and

- any amount outstanding in respect of the principal of any loans.

Section 4(1) of the 1968 Act limits the aggregate amount that may be outstanding in respect of commitments entered into by HM Treasury through the PWLB lending facility. Section 300 of the Finance Act 2014 came into force on 1 December 2017 and set the limit in Section 4(1) of the 1968 Act to £85 billion together with a provision to change this limit (up or down) to a maximum of £95 billion as specified by HM Treasury in an order made by statutory instrument and, on 8 October 2019, the Local Loans (Increase of Limit) Order 2019 duly increased this limit to £95 billion.

The PWLB lending facility has no resources of its own; rather it borrows from the National Loans Fund as and when it requires to fund its loans. Likewise, all loan repayments to the PWLB lending facility are paid over to the National Loans Fund. All interest and premiums on early redemption paid to the PWLB lending facility are paid to the National Loans Fund and any discounts payable on early redemptions are funded from the National Loans Fund. Operationally, flows of funds are netted whenever practicable.

In accordance with Sections 3(2) and 5 of the 1968 Act, interest on loans made through the PWLB lending facility is payable at rates determined by HM Treasury. This is achieved operationally by having rates calculated by the DMO using the methodology specified by HM Treasury. There are regular, twice-daily redeterminations of rates, published at 9.30a.m. and 12.30p.m. Determinations include a separate set of rates applying to early repayments.

Two types of loan are available from the PWLB lending facility:

- Fixed rate loans, for which the maximum repayment period is 50 years and on which the rate of interest is fixed for the duration of the loan. Repayments for fixed rate loans are due at half-yearly intervals; and
- Variable rate loans, for which the maximum repayment period is 10 years, and on which the rate of interest may be varied at one, three or six month intervals. Repayments are made at intervals corresponding to that selected for the variation of the rate. Once an interval is chosen, it remains unchanged throughout the life of the loan.



## Policy and lending arrangements

HM Treasury is able to issue PWLB loans to an authority up to the available capacity in its legal borrowing limit as determined under Part 1, Chapter 1 of the Local Government Act 2003. HM Treasury, requires, as part of the loan application process set out in the PWLB Operational Circular, a statement of confirmation from the borrowing authority that the application is within the relevant legislation and the authority's borrowing powers. Loans are automatically secured by statute on the revenues of the authority and HM Treasury will not refuse an application if satisfied that it conforms to the policy framework governing its lending arrangements. When local authorities borrow they must have regard to the Prudential Framework as set out by the Chartered Institute of Public Finance and Accountancy, and by the Ministry of Housing, Communities & Local Government, Scottish Government, or Welsh Government as applicable to ensure they are borrowing prudently. HM Treasury may refer to these bodies or seek further assurance from the local authority to satisfy itself about the conformity of a loan application.

Borrowers can request to repay loans before their due date. Under the policy framework, HM Treasury, via the DMO, accepts early repayments, but only on terms which do not favour the borrower over the National Loans Fund. HM Treasury's lending policy and operational arrangements are publicised in circulars available on the local authority lending pages of the DMO's website at [www.dmo.gov.uk/responsibilities/local-authority-lending/lending-arrangements/](http://www.dmo.gov.uk/responsibilities/local-authority-lending/lending-arrangements/).

In March 2020, HM Treasury published a consultation entitled Public Works Loan Board: future lending terms. The consultation aimed to develop a targeted intervention to stop 'debt for yield' activity while protecting the crucial work that local government does on service delivery, housing and regeneration. The government published a response to the consultation in November 2020 which set out revised lending terms for the PWLB and guidance to support local authorities to determine if a proposed project is an appropriate use of PWLB lending.

The new terms included a provision for HM Treasury to suspend the consideration of the loan application for further review if it considers that the application may fall outside HM Treasury's lending arrangements.

## Future developments

The March 2021 Budget set out more detail on the new UK Infrastructure Bank. The UK Infrastructure Bank will partner with the private sector and local government to increase infrastructure investment, to help tackle climate change and to promote economic growth across the country. Until the UK Infrastructure Bank is established in legislation, it will not have the legal powers to lend directly to local authorities. In the interim, it is intended that loans from the UK Infrastructure Bank to local authorities will make use of the existing PWLB mechanism.

## Performance summary

The PWLB earned interest income in the year of £3,079 million (2019-2020: £3,045 million). This comprised £3,079 million of contractual interest income (2019-2020: £3,045 million), and less than £1 million of premiums received due to the early redemption of loans (2019-2020: less than £1 million).

Year on year, the PWLB's interest income increased by £34 million. Increases in contractual interest income were responsible for all of this £34 million increase. Premiums received remained unchanged year on year.

The PWLB advanced 264 new loans to borrowers with a value of £2,861 million (2019-2020: 1,094 loans with a value of £10,422 million).

The PWLB's borrowers redeemed loans early with a principal value of £58 million in 2020-2021 (2019-2020: £21 million).

At 31 March 2021, the PWLB held loan assets of £86,349 million (31 March 2020: £86,258 million), inclusive of accrued income receivable of £552 million (31 March 2020: £564 million). The PWLB also held a cash balance of £381 million (31 March 2020: £308 million) comprising monies in transition between the National Loans Fund and the PWLB's borrowers.

Figure 1 sets out the loans advanced, the repayments received and the loan amounts outstanding according to types of borrower in England, Wales and Scotland. It includes the fair value of the PWLB's loan portfolio, which is equivalent to the net present value of all future contractual cash flows for each loan.

At 31 March 2021, the average period to maturity of fixed rate loans had decreased to 24.2 years (31 March 2020: 24.4 years). Also, there was a reduction

in the weighted average interest rate of the PWLB's loans outstanding at the balance sheet date to 3.57% (31 March 2020: 3.62%).

The assets of the PWLB are funded by borrowing from the National Loans Fund. Therefore all the PWLB's assets are matched by a corresponding liability to the National Loans Fund.

### Factors influencing financial performance

Movements in the PWLB's statement of financial position and its corresponding pattern of income are driven by the demand for new loans and the repayment (early or otherwise) of existing loans. The demand for new loans is influenced by local authorities' need for capital finance, changes in prevailing borrowing rates, borrowers' expectation of future interest rate changes and their eligibility for a concessionary rate. These factors, considered alongside any premium or discount payable for early redemption and the rates available for money on deposit, also influence the pattern of demand for early redemption of existing loans and for refinancing.

### Key issues and risks

The key issues and risks facing the PWLB are considered in the governance statement on page 26 to 35.

### Fees and charges

The fees charged to borrowers for each new PWLB loan as well as the administrative costs of the PWLB are accounted for within the DMO's overall budget, as agreed with HM Treasury. In 2020-2021, the DMO received fees of £1.0 million from the PWLB's borrowers in respect of new loans issued (2019-2020: £3.6 million).

Figure 1: Summary of transactions and balances outstanding

	In the year 2020-2021			Balances outstanding as at 31 March 2021		
	Loans advanced £m	Repayments of principal £m	Payments of interest £m	Principal due but not yet paid* £m	Principal outstanding £m	Interest due but not yet paid* £m
<b>Loans secured on local revenue to:</b>						
<b>Local authorities in England</b>						
County Councils	137	470	435	-	10,844	-
London Borough Councils	445	295	429	-	12,301	-
Metropolitan District Councils	108	310	520	-	13,922	-
Non-Metropolitan District Councils	1,160	682	770	-	25,072	-
Others	903	479	316	-	8,690	-
	<b>2,753</b>	<b>2,236</b>	<b>2,470</b>	<b>-</b>	<b>70,829</b>	<b>-</b>
<b>Local authorities in Scotland</b>						
Unitary Councils	92	365	408	-	10,219	-
Others	-	7	13	-	187	-
	<b>92</b>	<b>372</b>	<b>421</b>	<b>-</b>	<b>10,406</b>	<b>-</b>
<b>Local authorities in Wales</b>						
Unitary Councils	9	142	193	-	4,459	-
Others	7	9	3	-	102	-
	<b>16</b>	<b>151</b>	<b>196</b>	<b>-</b>	<b>4,561</b>	<b>-</b>
<b>Total loans on local revenues</b>	<b>2,861</b>	<b>2,759</b>	<b>3,087</b>	<b>-</b>	<b>85,796</b>	<b>-</b>

	In the year 2020-2021			Balances outstanding as at 31 March 2021		
	Loans advanced £m	Repayments of principal £m	Payments of interest £m	Principal due but not yet paid* £m	Principal outstanding £m	Interest due but not yet paid* £m
<b>Loans secured on property to harbour authorities</b>						
England	-	-	-	-	-	-
Scotland	-	-	-	-	1	-
Wales	-	-	-	-	-	-
<b>Total loans on property</b>	-	-	-	-	<b>1</b>	-
<b>Total loans on local revenues and property</b>	<b>2,861</b>	<b>2,759</b>	<b>3,087</b>	-	<b>85,797</b>	-

\* There were less than £1 million of overdue loan repayments at 31 March 2021. All overdue loan repayments at 31 March 2021 have since been paid.

The net present value of future cash flows of this portfolio of loans at 31 March 2021 was £125,169 million.

## Performance analysis

### Applications for loans

During the year, the PWLB received applications for loans resulting in 264 new loans being advanced (2019-2020: 1,094 loans). These new loans were provided to 160 different authorities (2019-2020: 300 authorities).

### Review by type of loan and borrower

Figure 2 shows loan advances made by the PWLB in 2020-2021 by type of loan and type of borrower. The figure highlights the preference for fixed rate loans during the year, such that £2,525 million of fixed rate loans were advanced and £336 million of variable rate loans were advanced.

Figure 2: Loans advanced by type of loan and borrower

	Fixed rate £m	Variable rate £m	Total £m
<b>Local authorities in England</b>			
County Councils	137	-	137
London Borough Councils	445	-	445
Metropolitan District Councils	108	-	108
Non-Metropolitan District Councils	1,160	-	1,160
Others	567	336	903
	<b>2,417</b>	<b>336</b>	<b>2,753</b>
<b>Local authorities in Scotland</b>			
Unitary Councils	92	-	92
Others	-	-	-
	<b>92</b>	<b>-</b>	<b>92</b>
<b>Local authorities in Wales</b>			
Unitary Councils	9	-	9
Others	7	-	7
	<b>16</b>	<b>-</b>	<b>16</b>
	<b>2,525</b>	<b>336</b>	<b>2,861</b>







### Types of loans, periods, rates and incidence of drawings

The monthly totals of loan advances by standard and concessionary rates, and the effect on the PWLB's loan portfolio, can be seen in Figure 3. £2,456 million of the PWLB's loan advances in 2020-2021 were made at the Certainty Rate, £75 million at the Local Infrastructure Rate, £35 million at the Capitalisation Rate, £271 million at the Housing Revenue Account (HRA) Rate and £24 million at the Standard rate. The loan principal balance outstanding to the PWLB at 31 March 2021 was £85,797 million (31 March 2020: £85,694 million).

The relationship between rates of interest and the term till maturity of advances for fixed rate loans can be seen in Figure 4. The figure highlights the preference by borrowers for long-term loans, with £940 million (33%) of loan advances being for longer than 40 years.

Fixed rate loans with a value of £790 million (2019-2020: £1,943 million), or 28% of all loan advances (2019-2020: 19%), were taken for the maximum period

of 50 years. £334 million of fixed rate loans were taken for the minimum period of only one year (2019-2020: £386 million).

The demand for fixed and variable rate loans over the previous 10 years, and their effect on the PWLB's loan portfolio, is demonstrated in Figure 5. In 2020-2021, the PWLB advanced £2,525 million of fixed rate loans and £336 million of variable rate loans. Over the previous 9 years, the PWLB had advanced £54,559 million of fixed rate loans and £292 million of variable rate loans (less than 1% of the total).

Figure 6 shows the pattern of rates and the term till maturity of loans advanced over the previous 10 years. The weighted average term till maturity for loans advanced was 27.4 years in 2020-2021.

Figure 7 demonstrates the continuing popularity of maturity loans, which constituted £2,014 million (70%) of loans advanced in 2020-2021.

Figure 3: Loan principal outstanding and advanced, month by month

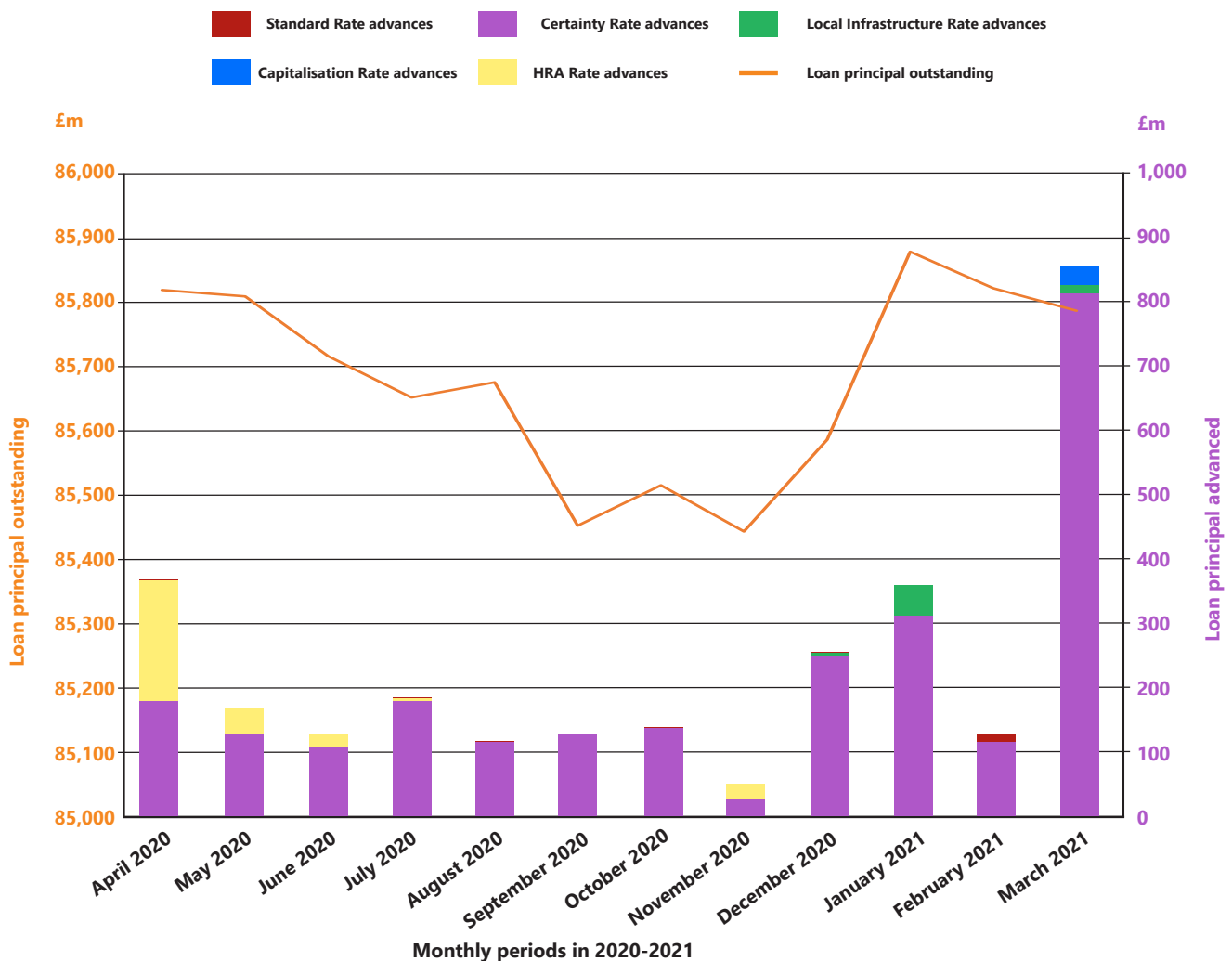


Figure 4: Term till maturity of fixed rate loans advanced in the year and their interest rates

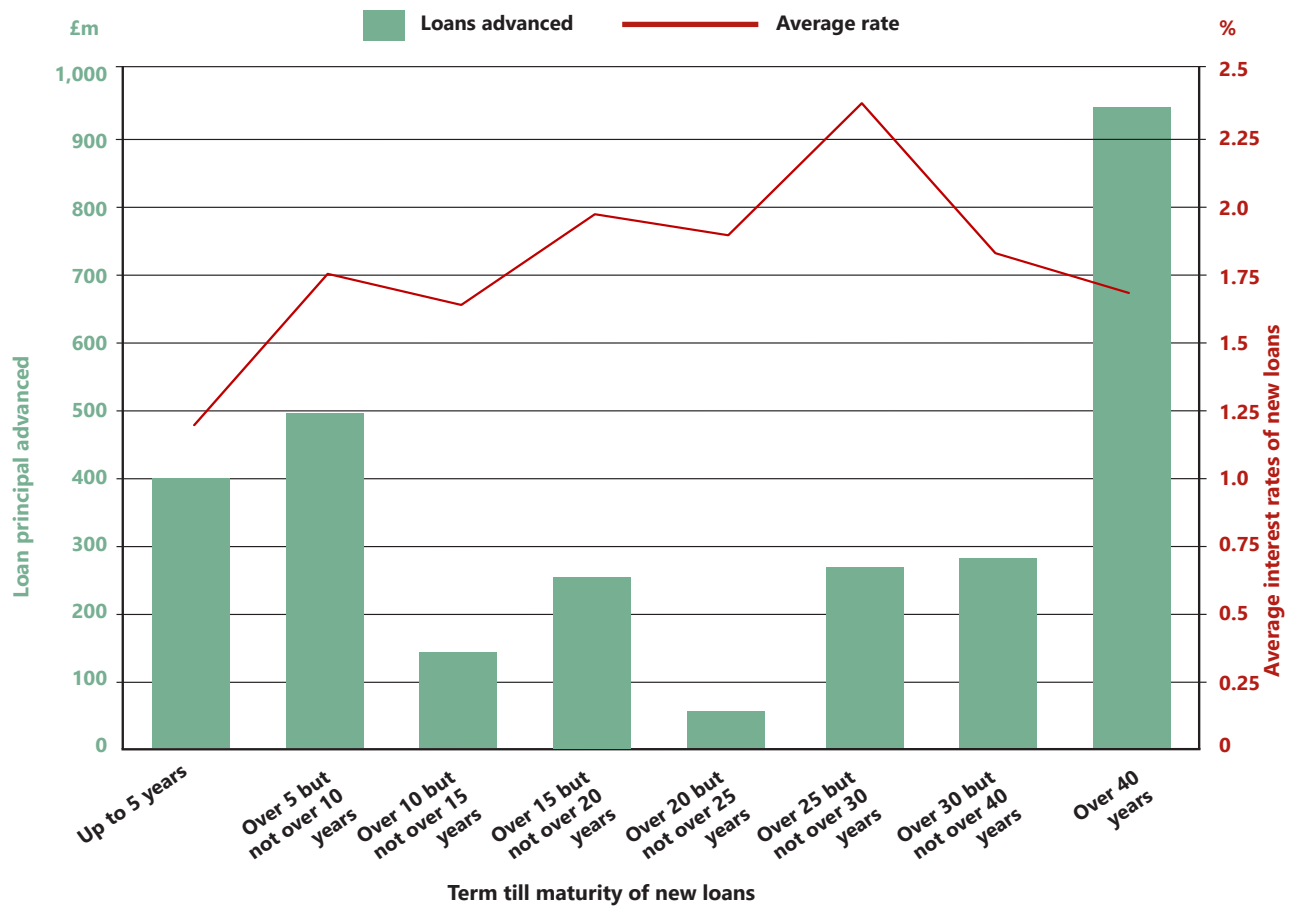


Figure 5: Loan principal outstanding and advanced, year by year

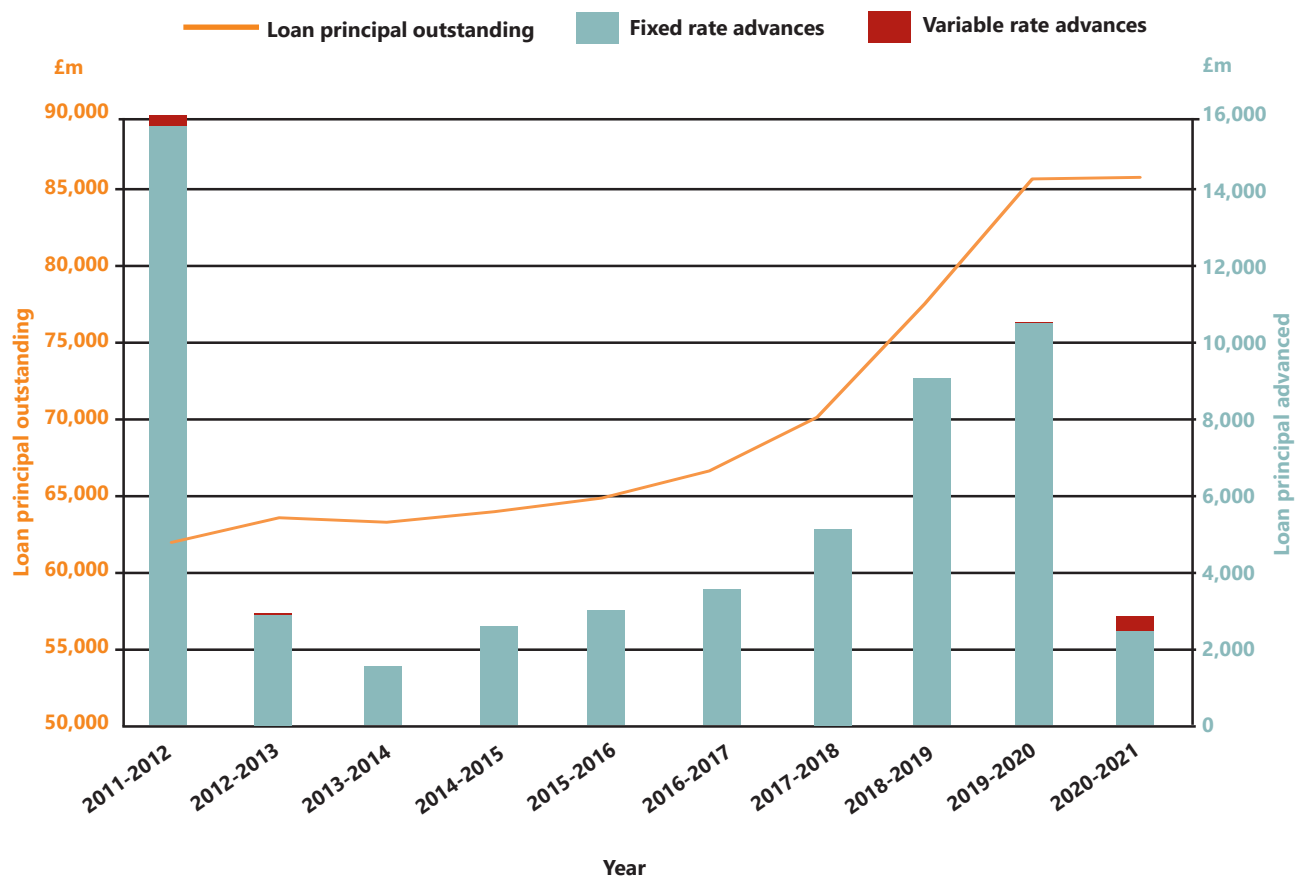


Figure 6: Average rate and term till maturity of loans advanced, year by year

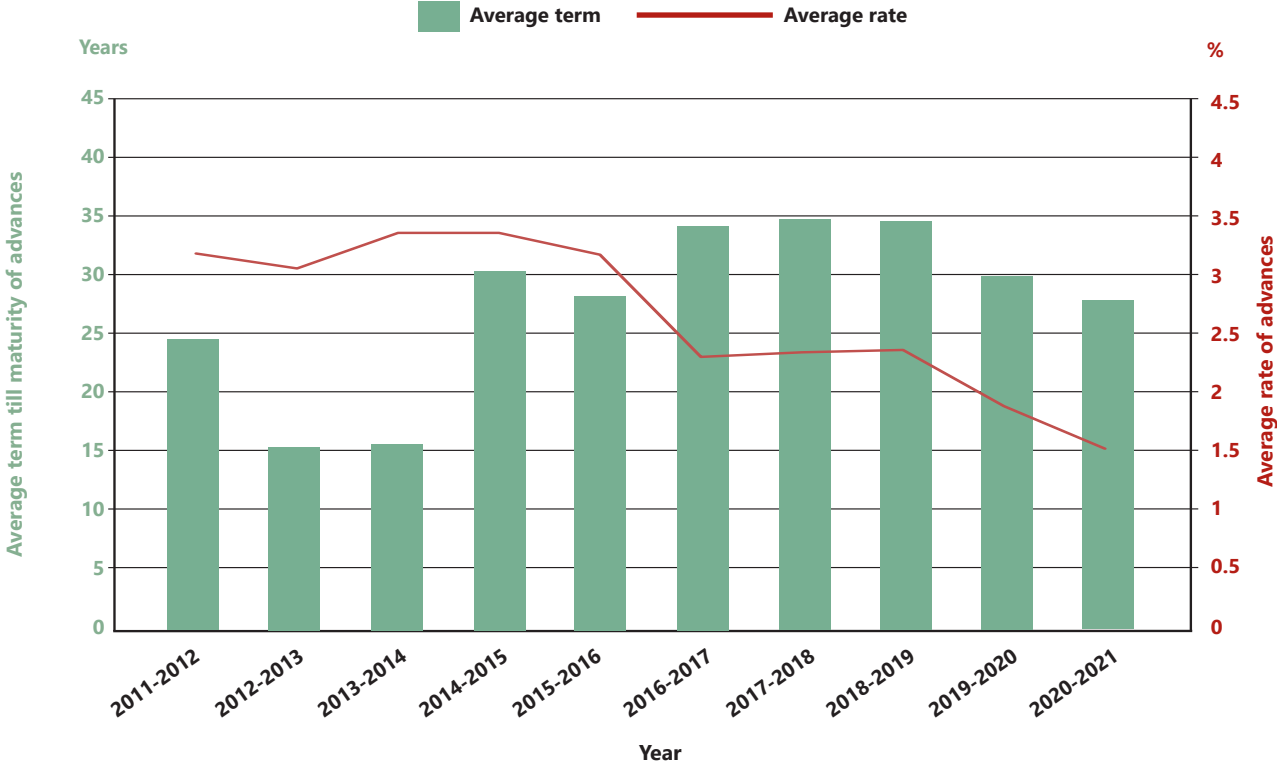


Figure 7: Loans advanced in the year, by type and by term till maturity

Method of Repayment	Period of payment (£m)							Total
	Up to 5 years	Over 5 but not over 10 years	Over 10 but not over 15 years	Over 15 but not over 20 years	Over 20 but not over 30 years	Over 30 but not over 40 years	Over 40 years	
<b>Fixed rate loans</b>								
Maturity	30	127	88	128	290	281	734	1,678
Annuity	1	14	41	45	27	6	206	340
Equal instalments of principal	369	21	11	90	12	4	-	507
	<b>400</b>	<b>162</b>	<b>140</b>	<b>263</b>	<b>329</b>	<b>291</b>	<b>940</b>	<b>2,525</b>
<b>Variable rate loans</b>								
Maturity	-	336	-	-	-	-	-	336
Equal instalments of principal	-	-	-	-	-	-	-	-
	-	<b>336</b>	-	-	-	-	-	<b>336</b>
<b>All loans</b>								
Maturity	30	463	88	128	290	281	734	2,014
Annuity	1	14	41	45	27	6	206	340
Equal instalments of principal	369	21	11	90	12	4	-	507
	<b>400</b>	<b>498</b>	<b>140</b>	<b>263</b>	<b>329</b>	<b>291</b>	<b>940</b>	<b>2,861</b>

### Scheduled and early repayments

When an authority redeems a loan, it is a decision for the authority, subject to the PWLB's lending arrangements, whether to replace the loan with a new loan. The PWLB will treat the replacement loan as a new transaction.

Authorities may, at the PWLB's discretion, redeem a loan early. In the case of an early redemption, the authority will repay the net present value of the future contractual cash flows, resulting in a discount or premium according to whether the early repayment rate at the time is higher or lower than the loan rate.

Figure 8 summarises early repayments in 2020-2021.



Figure 8: Early repayments

	Number of loans repaid	Principal repaid £m	Premium received £m	Discount paid £m
Fixed rate loans	6	-	-	-
Variable rate loans	2	58	-	-
	<b>8</b>	<b>58</b>	-	-

Early repayments of £58 million were made during the year (2019-2020: £21 million), compared to new loan advances of £2,861 million (2019-2020: £10,422 million).

The value of loan principal outstanding to borrowers rose by less than 1% year-on-year (2019-2020: 10.5% rise), to £85,797 million from £85,694 million at 31 March 2020.

### Repayments in arrears

There were less than £1 million of overdue loan repayments at 31 March 2021 (31 March 2020: £4 million). All overdue loan repayments at 31 March 2021 have since been paid.

### Rates of interest

The PWLB's interest rates are determined by the DMO using the methodology specified by HM Treasury in accordance with the National Loans Act 1968. The methodology is designed to ensure that the rates set for new PWLB loans are not lower than those at which the government could notionally borrow.

A detailed explanation of the methodology is in a Technical Note which is available, along with current and past PWLB loan interest rates, on the local authority lending pages of the DMO's website, [www.dmo.gov.uk](http://www.dmo.gov.uk).

The fixed PWLB lending rate for four different maturities as well as the 3 month variable lending rate for 2020-2021 are shown in Figure 9.

As can be seen in Figure 9, lending rates across all maturities (for both fixed and variable rates) dropped on 26 November 2020 as HM Treasury reduced the margin applied to all new Standard and Certainty Rate PWLB loans by 1%.

### Concessionary rates

The PWLB offers loans at rates below the standard rate in accordance with certain schemes agreed with HM Treasury.

**Certainty Rate:** From 1 November 2012, the government reduced by 0.2% the rates on loans from the PWLB to local authorities who provided certain information on their plans for long-term borrowing and associated capital spending. HM Treasury produced a list of Qualifying Local Authorities, which was published on the PWLB's website.

On 26 November 2020, and in conjunction with the changes to the lending arrangements to ensure PWLB loans were not used for debt-for-yield activity, the government announced a reduction of 1% in the margin applied to all new Standard and Certainty Rate PWLB loans.

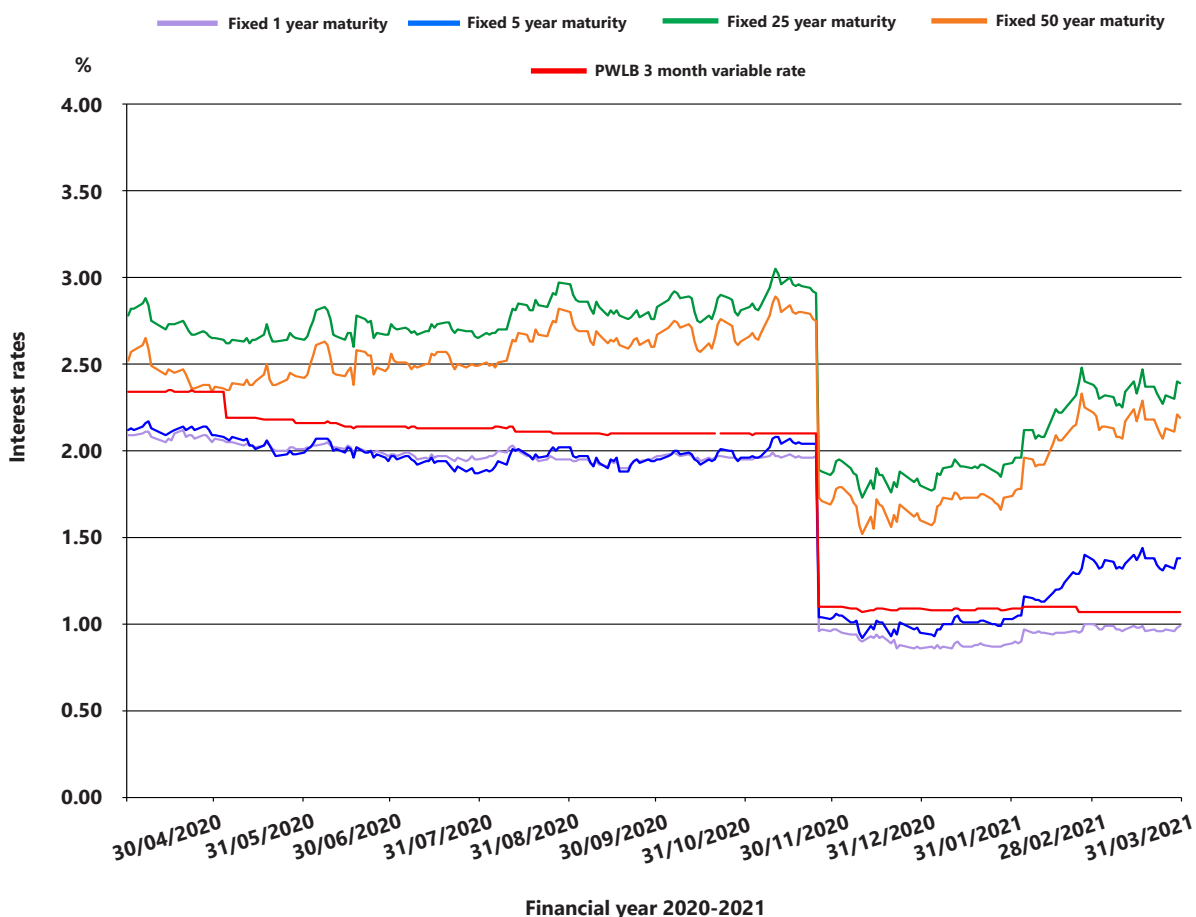
**Local Infrastructure Rate:** In April 2018, HM Treasury published the arrangements for access to the Local Infrastructure Rate, which allows local authorities to borrow at a rate of 0.6% above respective gilt yields to support certain qualifying infrastructure projects. The government made available up to £1 billion of lending at this rate to English authorities over two bidding rounds during 2018-2019 and a further £1 billion in a single bidding round in 2020. Corresponding shares were made available to local authorities in Scotland and Wales.

At Spring Budget 2020, the government announced a new, discounted rate of PWLB lending to support social housing in England, Scotland and Wales. The new Housing Revenue Account (HRA) rate was available for loans arranged on or after 12 March 2020 for any local authority with an HRA for loans that would finance expenditure within that account. The value of this discount was 1% below the rate at which the local authority usually borrowed from the PWLB.

The Ministry of Housing, Communities & Local Government provided a small number of local authorities with capitalisation directions in 2020-2021 allowing them to borrow for revenue spending. A condition of these directions by the Ministry of

Housing, Communities & Local Government was that local authorities must borrow from the PWLB and that borrowing must be at a 1% higher rate (the 'Capitalisation Rate') than the relevant Standard or Certainty Rate.

Figure 9: Interest rates by term till maturity and type of loan\*



\* The interest rates shown relate to standard rate loans. Certainty, Local Infrastructure and HRA rates are 0.2%, 0.4% and 1.2% respectively lower than the standard rate, whilst the Capitalisation rate is 1.0% higher than the standard rate.

### Transfers of debt

The PWLB is prepared to transfer debt as appropriate, following local government reorganisation. This means that the PWLB would, for instance, be prepared to transfer debt from a collection of District Councils to a Unitary Authority on consolidation.

### Service performance

The PWLB sets itself target timetables for advancing loans and arranging premature repayments. Applications are processed according to the timetables set out in the PWLB's circulars.

**Sir Robert Stheeman**  
Accounting Officer  
17 June 2021

# Accountability report

The accountability report comprises two sections: a corporate governance report and a parliamentary accountability and audit report. The corporate governance report includes the following information: the responsibilities of the Accounting Officer; the composition, responsibilities and actions of the Managing Board and Audit Committee and how they have supported the Accounting Officer and enabled the objectives of the PWLB; and the key risks faced by the PWLB and how it seeks to manage them. The parliamentary accountability and audit report includes a formal opinion by the PWLB's external auditor to certify that the financial statements give a true and fair view of the state of the PWLB's affairs for the year and that they have been prepared in accordance with all relevant rules.

These two sections contribute to the PWLB's accountability to Parliament and comply with best practice in relation to corporate governance norms and codes. In particular, the corporate governance report seeks to do so by describing the key mechanisms the PWLB employs to ensure it maintains high standards of conduct and performance. This includes the statement of Accounting Officer's responsibilities which describes his accountability to Parliament for the PWLB's use of resources and compliance with rules set by HM Treasury to ensure best practice in financial management. The governance statement reflects the applicable principles of the Corporate Governance Code for Central Government Departments. The parliamentary accountability and audit report confirms that expenditure and income of the PWLB have been applied to the purposes intended by Parliament and confirms that information in the parliamentary accountability disclosures has been audited and approved by external auditors.

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# Corporate governance report

## Directors' report

Operationally, the PWLB is part of the DMO and its staff are employees of the DMO. The PWLB therefore has no staff of its own.

### Name of PWLB Accounting Officer and DMO Managing Board

The members of the DMO's Managing Board are considered to be the directors of the PWLB. The authority and responsibilities of the Managing Board are set out in the governance statement on page 26 to 35.

- **Sir Robert Stheeman**  
PWLB Accounting Officer and Chief Executive of the DMO
- **Jo Whelan**  
Deputy Chief Executive and Co-Head of Policy and Markets of the DMO
- **Jim Juffs**  
Chief Operating Officer of the DMO
- **Jessica Pulay**  
Co-Head of Policy and Markets of the DMO
- **Tom Josephs**  
Non-executive HM Treasury representative
- **Paul Fisher**  
Non-executive director
- **Paul Richards**  
Non-executive director

The remuneration of the DMO's Managing Board members is set out in the United Kingdom Debt Management Office Annual Report and Accounts.

This section has been audited.

### Directors' conflicts of interest

In 2020-2021, no material conflicts of interest were declared by DMO Managing Board members.

### Reporting of personal data related incidents

The PWLB had no protected personal data related incidents during 2020-2021.

## Statement of Accounting Officer's responsibilities

Under Section 3(6) of the National Loans Act 1968 HM Treasury has directed the DMO to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the PWLB and its income and expenditure, statement of financial position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Government Financial Reporting Manual, and in particular to:

- observe the relevant accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and
- confirm that the annual report and accounts as a whole are fair, balanced and understandable, and take personal responsibility for the annual report and accounts and the judgements required for determining they are fair, balanced and understandable.

HM Treasury has appointed the Chief Executive of the DMO as the Accounting Officer of the PWLB.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the PWLB's assets are set out in *Managing Public Money* published by HM Treasury.

### Disclosure to auditors

The accounts are audited by the Comptroller and Auditor General in accordance with Section 3(6) of the 1968 Act.

The Comptroller and Auditor General charges no audit fee for undertaking this statutory audit.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the PWLB's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.







# Governance statement

## Scope of responsibility

A statutory responsibility of HM Treasury is to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. HM Treasury has delegated to the Accounting Officer of the DMO responsibility for authorising loans and collecting due payments. The day-to-day operations of the PWLB lending facility have been fully integrated within the operations of the DMO. The DMO provides reports to HM Treasury of lending activity on a daily basis. These reports, as well as the Annual Report and Accounts, are the primary mechanisms through which HM Treasury is kept informed of the PWLB lending facility's operations. Credit risk is the risk that a counterparty will fail to discharge a contractual obligation, resulting in financial loss to the PWLB lending facility. Any such loss would be borne by the National Loans Fund. A fuller description of the roles and responsibilities of HM Treasury can be found in the overview to this Report and Accounts.

As Accounting Officer of the DMO, I am responsible for ensuring appropriate advice is given to HM Treasury on all matters relating to financial propriety and regularity, for keeping accounts and submitting them for external audit by the Comptroller and Auditor General and for the efficient and effective use of resources and ensuring that the business is managed within the appropriate control framework.

The PWLB lending facility is managed within the control framework of the DMO. As the Accounting Officer of the DMO, I am responsible for the wider control framework within which the PWLB lending facility is managed. In discharging my own control responsibilities, I take assurance on the continued sound maintenance of the wider control framework from the governance statement for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

Prior to 25 February 2020, PWLB loans were provided by the Public Works Loan Commissioners. Following a government consultation in 2016 the Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020 abolished the Commissioners and transferred their statutory powers to HM Treasury.

The PWLB lending facility is subject to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the following principles laid down in that Code:

- Parliamentary accountability;
- The role of the Board;
- Board composition;
- Board effectiveness; and
- Risk management.

No part of the PWLB lending facility is conducted with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

## Managing Board

The DMO Accounting Officer was supported during 2020-2021 by the DMO Managing Board (the Board) which, in addition to the DMO Accounting Officer, is comprised of:

- Jo Whelan  
Deputy Chief Executive and Co-Head of Policy and Markets;
- Jim Juffs  
Chief Operating Officer;
- Jessica Pulay  
Co-Head of Policy and Markets;
- Tom Josephs  
Non-executive HM Treasury representative;
- Paul Fisher  
Non-executive director - During a 26 year career at the Bank of England, Paul Fisher served as a member of the Monetary Policy Committee from 2009 to 2014, the interim Financial Policy Committee from 2011 to 2013 and the PRA Board from 2015 to 2016. He has a number of current roles including Chair of the London Bullion Market Association;
- Paul Richards  
Non-executive director - During a 29 year career at Bank of America Merrill Lynch, Paul was MD of business in fixed income trading, Debt Capital Markets and Corporate Banking across Europe, the Americas and Asia Pacific. Following his retirement from banking, he spent 18 months

as a senior consultant to the FCA. He is currently Chairman of Insignis, a FinTech company he launched in 2015.

Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

One of the roles of the Board is to advise the Accounting Officer on any key decisions affecting the PWLB lending facility.

An executive sub-committee of the Board generally meets weekly and supports the Accounting Officer on operational decisions.

The Board undertook a formal self-evaluation of its performance led by a non-executive director in March 2021 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. Between formal reviews the Board considers its effectiveness on an ongoing basis. The Terms of Reference underwent a full review by the Board in 2020.

### 2020-2021 Managing Board activities

Board meetings were held regularly throughout 2020-2021 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

Board and Audit Committee attendance is outlined in the following table:

	Managing Board		Audit Committee	
	Possible	Actual		
Sir Robert Steheman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	8		
Tom Josephs	8	7		
Paul Fisher	8	8	6	6
Paul Richards	8	8	6	6
Rodney Norman	n/a	n/a	6	6

### Audit Committee

The Accounting Officer was supported during 2020-2021 by the Audit Committee on matters relating to risk, internal control and governance. The Audit Committee covers the activities of the DMO, Debt Management Account (DMA), Commissioners for the Reduction of the National Debt (CRND) and PWLB lending facility. The members of the Audit Committee during 2020-2021 were:

- Paul Fisher (Chairman)
- Paul Richards
- Rodney Norman - Rodney Norman was Finance Director of NS&I until 2018. Prior to that he was the Treasury Accountant at HM Treasury. This was preceded by a career in the City where he qualified as a Chartered Accountant with PWC and was Finance Director of the Banking Division of Close Brothers. He is currently a non-executive director of the Pension Protection Fund, a non-executive member of the Audit and Risk Committees of the Army and the Office of Rail and Road and a senior advisor to the Bank of England.

Audit Committee meetings are typically attended by the DMO Accounting Officer, either or both of the Co-Heads of Policy & Markets, the Chief Operating Officer and the Head of Internal Audit, the Head of Finance, the Head of Risk, and the National Audit Office.

One of the Audit Committee's objectives is to give advice to the Accounting Officer of the PWLB lending facility on:

- The overall processes for risk, control and governance and the governance statement;
- Management assurances and appropriate actions to follow from internal and external audit findings, risk analysis and reporting undertaken;
- The financial control framework and supporting compliance culture;
- Accounting policies and material judgements, the accounts and the annual report and management's letter of representation to the external auditors;
- Whistleblowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business;
- Processes to protect against money laundering, fraud and corruption; and
- The planned activity and results of both internal and external audit.

During the period under review the Audit Committee paid particular attention to the following areas:

- Impact of COVID-19, working from home and hybrid working arrangements;
- COVID-19 risk assessment and risk mitigation plan;
- UK leaving the European Union;
- DMO accommodation and data centres relocation;
- Human Resources processes and controls;
- Cyber security;
- Static data processes and controls and counterparty static data in the core trading system;
- User access rights in the core trading system;
- IT asset management and desktop support;
- Policies, departmental procedures and committee Terms of References;
- Anti-fraud policies and arrangements;
- Risk management framework;
- International Financial Reporting Standards (IFRS) 16; and
- IT change management process.

The Audit Committee covers a regular programme of agenda items, together with other current topics, and met four times during the year. The Accounting Officer has also been informed by the following operational committees throughout the period under review.

#### ■ Business Delivery Committee

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross-functional body, resolving emerging issues in a timely way, and agreeing priorities to ensure the plan stays on track. The most significant initiative monitored by the Business Delivery Committee during the year were the transition to remote working due to COVID-19, the accommodation relocation project and all data centre relocations.

The Business Delivery Committee met regularly (typically weekly) throughout 2020-2021.

#### ■ Risk Committees

The Accounting Officer receives advice from two risk committees covering operational risk and material change programmes. More detail on the roles, responsibilities and activities of these committees can be found in the sections below.

## Risk management and internal control

The Accounting Officer is responsible for working within a sound system of internal control that supports the achievement of the PWLB lending facility's policies, objectives and targets, whilst safeguarding the public funds for which he is accountable, in accordance with the responsibilities assigned to him.

The PWLB lending facility is managed within the wider DMO system of internal control which is based upon what the DMO Accounting Officer, with the support of the Board, considers to be appropriate, taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The DMO's position differs to that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result, the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

### The Risk and Control Framework

The Board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This Framework helps ensure that the DMO Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The risk management framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The Framework is supported by a clear 'three lines of defence' model:

#### ■ First line of defence:

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are encouraged to understand and own the risks that are inherent in those operations. In particular, the DMO seeks to promote an environment in which staff feel comfortable to identify new aspects of risk and changes in previously identified risks, as well as weaknesses, so that these may be assessed and appropriate mitigating actions put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and robust business continuity arrangements.

The fixed interest rates offered by the PWLB lending facility are determined by HM Treasury in accordance with section 5 of the National Loans Act 1968. In practice the rates are calculated each day using data from one of the DMO's business critical models. The DMO has put in place a robust quality assurance framework for all the models that it uses which extends to cover validation of results and any changes in approach.

#### ■ Second line of defence:

Oversight of risk is provided by the Board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the DMO Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit risk, market risk and operational risk. It has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of the committees that are relevant to PWLB lending facility activities is described in more detail below.

#### Operational Risk Committee

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. The ORC also reviews and tracks the progress of actions identified by Internal Audit. The ORC's scope includes issues relating to information risk, IT security, business continuity, anti-fraud and key supplier risks.

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The ORC has focused this year on IT & cyber security, hybrid working arrangements, business continuity planning and key supplier risks. The ORC met seven times during 2020-2021.

#### Controls Group

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the DMO Accounting Officer, the Board and senior management on any significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Group has also advised the DMO Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group continued to review the controls in place for increased remote working arrangements. In addition, the Controls Group covered the risk assessment and risk mitigation plan for more staff returning to the office as the impact of COVID-19 subsides. Other topics reviewed included a review of access controls for the core trading system for the PWLB lending facility.

#### Risk Management Unit

The risk committees are supported by the DMO's Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the DMO Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the Board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from, and independent of, the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU via quarterly consultations with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing, are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk



Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

#### ■ Third line of defence:

The DMO's Internal Audit function is the third line of defence and provides the DMO Accounting Officer with independent and objective assurance on the overall effectiveness of the system of internal control. It does this through a risk based work programme which is presented to the Audit Committee at the start of each year and approved by the Audit Committee at the start of each quarter. All audits make a series of findings relating to control weaknesses. Progress against agreed management actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the DMO Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

### Risk policies and procedures

The DMO's risk policies reflect the high standards and robust requirements which determine the way in which risks are managed and controlled. The DMO Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2020-2021, this included policies relating to misconduct escalation, procurement, information security, IT security, and remote working.

Staff are required to confirm that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems

and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistleblowing, fraud and anti-money laundering and information security. The DMO ensures that this exercise is undertaken on an annual basis which helps staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

During 2020-2021 no concerns were raised by staff under the DMO's whistleblowing policy.

### Key developments

#### ■ COVID-19

The DMO has continued to actively review and refine its contingency arrangements to minimise the impact of COVID-19 as the situation develops. A robust assurance framework has been implemented to ensure the maintenance of control standards for critical operations in an environment where the majority of staff have been working remotely. The assurance framework was enhanced for a longer-term view.

The hybrid working group formulated the risk assessment and risk mitigation plans in ensuring the office premises remained COVID-19 secure and compliant with guidelines. A change in working arrangements whereby the majority of staff were working from home is a principal risk under the Risk Profile section.

#### ■ UK leaving the European Union

During the year the DMO has continued to work with HM Treasury and other stakeholders to identify, assess and raise awareness of potential direct and indirect impacts on all PWLB lending facility operational activities. Various scenarios regarding the United Kingdom's exit from the European Union were considered, with early mitigating actions taken where possible.

## Risk profile

The Accounting Officer and DMO Board believe that the principal risks and uncertainties facing the PWLB lending facility are outlined in the table below together with the key actions taken to manage and mitigate them:

Principal risks and uncertainties	Mitigation and management
<p><b>IT systems and infrastructure</b></p> <p>The PWLB lending facility relies on a number of IT systems to conduct its operations. In particular, certain systems are central to the PWLB lending facility being able to advance loans and manage repayments in an effective and timely way.</p>	<p>During the year the DMO has progressed initiatives to further strengthen the resilience and security of its IT network. The Public Service Network (PSN) accreditation was reconfirmed as a result of an IT health check.</p> <p>The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.</p> <p>Arrangements to support PWLB lending facility activities were in place throughout the year with the majority of staff working from home.</p> <p>During the year, the most significant initiatives were the data centre relocations. All data centres are now physically separate from the main office location which increases resilience.</p>
<p><b>IT and data security</b></p> <p>Through its activities, the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff. The DMO seeks to ensure the highest standards of data protection and information management. The DMO could be the subject of an external attack on its IT systems and infrastructure.</p>	<p>The DMO, including PWLB lending facility, continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. IT and data security risks continued to be a specific area of focus in 2020-2021 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes. The focus was in identifying and mitigating any changes to IT and data security risks as a result of increased remote working.</p> <p>Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risk.</p>

Principal risks and uncertainties	Mitigation and management
<p><b>Reliance on third parties</b></p> <p>A number of the operational systems and services on which the PWLB lending facility relies are provided or supported by third party suppliers.</p>	<p>The DMO has put in place several layers to defend against external and internal attacks. During 2020-2021 a comprehensive security configuration review for all major IT infrastructure, network and server changes was undertaken.</p> <p>To mitigate the risk of failure of a key third party supplier the DMO undertakes regular corporate risk assessments of each key supplier in order to assess a range of factors including its financial strength and operational capacity and reliance on sub-contractors. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against the agreed Service Level Agreements, where appropriate. The procurement manager and the vendor management group have been working to embed consistent standards of supplier management across account managers by improving visibility of key contracts and sharing best practice. The supplier of the new trading system, the new office landlord and the providers of the data centres have become key long-term partners.</p> <p>During the year, more focus has been given to understanding any potential supply chain challenges from COVID-19 and the United Kingdom exiting the European Union.</p>
<p><b>Transaction processing</b></p> <p>The PWLB lending facility relies on its operational processes to successfully advance loans and manage repayments on a daily basis. Reliance on the accurate execution of processes exposes the PWLB lending facility to operational risk arising from process breakdown and human error.</p>	<p>A key component of PWLB lending facility's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities.</p> <p>All teams, including PWLB lending facility, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.</p> <p>The RMU conducts regular control and compliance testing of PWLB lending facility activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.</p>

<b>Principal risks and uncertainties</b>	<b>Mitigation and management</b>
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**Hybrid work**

In light of COVID-19, a change in working arrangements could lead to increased operational risks due to the majority of staff working from home.

The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover PWLB lending facility. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and the Board.

The focus has been on enhanced compliance monitoring on transaction processing, in light of adjustments to processes to facilitate remote working.

This was the first full year of the operational running of the core trading systems. As with any new system, some issues were encountered but were all addressed swiftly with minimal impact resulting in greater operational resilience. Contingency processes worked successfully with other key systems also.

During the year, remote working controls were put in place when hybrid working was urgently implemented in light of COVID-19. Controls continued to be adapted as new working practices evolved to ensure overall control standards were maintained. The robust control framework was reviewed by Internal Audit. The majority of meetings were conducted via secure conference and video calls to ensure governance and communication was maintained. Strategic planning continued for hybrid working to develop a long-term view of working practices and associated controls.

An independent external review confirmed the existing control framework as robust.

**People risk**

The DMO, including PWLB lending facility, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives.

DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.

The DMO’s Training and Development policy is designed to help ensure that staff have the right skills to meet its objectives.

The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.

Principal risks and uncertainties	Mitigation and management
<p>The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector who have historically offered higher remuneration packages that are not subject to public sector remuneration policies.</p>	<p>The DMO also has a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure.</p> <p>Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. During the year, particular consideration has been given to the issues faced by staff working increased hours and weekends on the programme to strengthen IT infrastructure. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one-off performance related awards. Any awards are assessed annually by the DMO Pay Committee, are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.</p> <p>A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff.</p> <p>On an annual basis all DMO staff are encouraged to take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the DMO Accounting Officer and Board.</p> <p>The DMO was reaccredited as an Investor in People in 2017.</p>

## Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of the PWLB lending facility's aims and objectives has been in place throughout 2020-2021. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and executive managers within the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

In my role as Accounting Officer, I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

In 2020-2021, no ministerial directions were given and no material conflicts of interest have been declared by the Board or Audit Committee members in the Register of Interests.

In my opinion, the PWLB lending facility's system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

**Sir Robert Stheeman**

Accounting Officer

17 June 2021



# Parliamentary accountability and audit report

## Regularity of expenditure

The expenditure and income of the PWLB were applied to the purposes intended by Parliament.

The borrowings and investments of the PWLB were applied to the purposes intended by Parliament.

Both the above statements have been audited.

## Fees and charges

During the year, the PWLB's borrowers paid a fee for each new loan issued to them. These fees were paid to the DMO and accounted for within the DMO's overall budget, therefore forming part of the DMO's accounts, as described on page 11. The PWLB itself recognised no fees or charges.

The above statement has been audited.

**Sir Robert Steeman**

Accounting Officer

17 June 2021

# The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

## Opinion on financial statements

I certify that I have audited the financial statements of the Public Works Loan Board function, known as the PWLB lending facility (or the "PWLB") for the year ended 31 March 2021 under the National Loans Act 1968. The financial statements comprise: the statement of comprehensive income, statement of financial position, statement of cash flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as interpreted by HM Treasury's Government Reporting Manual.

I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the PWLB's affairs as at 31 March 2021 and of the results for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder.

## Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the PWLB in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion

## Conclusions relating to going concern

In auditing the financial statements, I have concluded that the PWLB's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the PWLB's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this report.

The going concern basis of accounting for PWLB is adopted in consideration of the requirements set out in Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

## Other Information

The other information comprises information included in the annual report but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and I do not

express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the National Loans Act 1968; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

### Matters on which I report by exception

In the light of the knowledge and understanding of the PWLB and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance Report and Accountability Report. I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury’s guidance.

### Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer’s Responsibilities, the Accounting Officer, is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the PWLB’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by PWLB will not continue to be provided in the future.

### Auditor’s responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the PWLB’s head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the PWLB’s policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and

- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the PWLB's controls relating to the National Loans Act 1968.
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, including the consideration of fraud in revenue recognition and management override of controls, such as posting of unusual journals, significant and unusual transactions and bias in managements estimates;
- obtaining an understanding of PWLB's framework of authority as well as other legal and regulatory frameworks that the PWLB operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the PWLB. The key laws and regulations I considered in this context included the National Loans Act 1968;
- review of the above laws and regulations, including determining whether there have been any changes and amendments to laws and regulations; and
- consideration within planning the audit and throughout the audit of the risk of fraud.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing

whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

- other risk assessment procedures performed relating to fraud, non-compliance with laws and regulations and regularity, including confirming PWLB's lending cap has not been exceeded, ensuring that PWLB has not exceeded its lending limits for specific rates set out in legislation, ensuring the borrowing rate is applied and ensuring only allowed parties are granted loans.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## Report

I have no observations to make on these financial statements.

**Gareth Davies**  
Comptroller and Auditor General

21 June 2021

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP



# Accounts of the PWLB





## Statement of comprehensive income

For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Interest income	2, 3	3,079	3,045
<b>Total income</b>		<b>3,079</b>	<b>3,045</b>
Interest payable to National Loans Fund		(3,079)	(3,045)
<b>Surplus for the year</b>		<b>-</b>	<b>-</b>

The notes on pages 44 to 52 form part of these accounts.

## Statement of financial position

As at 31 March 2021

	Note	2021 £m	2020 £m
<b>Assets</b>			
Cash and balances at bank		381	308
Loans advanced	4, 5	86,349	86,258
<b>Total assets</b>		<b>86,730</b>	<b>86,566</b>
<b>Liabilities</b>			
Amounts owed to National Loans Fund	7	86,730	86,566
<b>Total liabilities</b>		<b>86,730</b>	<b>86,566</b>

The notes on pages 44 to 52 form part of these accounts.

**Sir Robert Stheeman**

Accounting Officer

17 June 2021

## Statement of cash flows

For the year ended 31 March 2021

	Note	2021 £m	2020 £m
<b>Net cash from/(used in) operating activities</b>	<b>8</b>	<b>2,988</b>	<b>(4,923)</b>
<b>Financing activities</b>			
Interest paid to National Loans Fund		(3,076)	(3,072)
Increase in loan principal outstanding to National Loans Fund		161	8,256
<b>Net cash (used in)/from financing activities</b>		<b>(2,915)</b>	<b>5,184</b>
<b>Increase in cash</b>		<b>73</b>	<b>261</b>
<b>Cash at the beginning of the year</b>		<b>308</b>	<b>47</b>
<b>Cash at the end of the year</b>		<b>381</b>	<b>308</b>

The notes on pages 44 to 52 form part of these accounts.

# Notes to the accounts for the year ended 31 March 2021

## 1 Accounting policies

### (i) Basis of preparation

The accounts have been prepared in accordance with an accounts direction given by HM Treasury and in accordance with applicable International Financial Reporting Standards (IFRS) and relevant requirements of the Government Financial Reporting Manual (FRm) in so far as they are appropriate to the PWLB. The accounts have been prepared under the historical cost convention and on a going concern basis in line with the requirements of the FRm.

In particular, the following standards have been applied:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Certain IFRS have been issued or revised, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2023. The PWLB expects to apply these revisions to IAS 1 in 2023-2024. The application of these

revisions, which the IASB has delayed by a year, and which affect only the presentation of liabilities in the statement of financial position and relate to a clarification of the classification of current and non-current liabilities, are not expected to materially alter the presentation of the financial statements of the PWLB.

- IFRS 7 - Financial Instruments: Disclosures, which has been revised as part of the IASB's 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'. Application is required for reporting periods beginning on or after 1 January 2021. The PWLB expects to apply these revisions to IFRS 7 in 2021-2022. The application of these revisions, which require additional disclosures to allow users to understand the nature and extent of the risks arising from the IBOR reform to which the entity is exposed and how the entity manages those risks, are not expected to materially alter the presentation of the financial statements of the PWLB.
- IFRS 9 – Financial Instruments, which has been revised as part of the IASB's 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'. Application is required for reporting periods beginning on or after 1 January 2021. The PWLB expects to apply these revisions to IFRS 9 in 2021-2022. The application of these revisions, which require additional disclosures to allow users to understand the nature and extent of the risks arising from the IBOR reform to which the entity is exposed and how the entity manages those risks, are not expected to materially alter the presentation of the financial statements of the PWLB.
- IFRS 9 – Financial Instruments, which has been revised as part of the IASB's 'Annual improvements



to IFRS Standards 2018-2020 (fees in the '10 per cent' test for derecognition of financial liabilities)'. Application is required for reporting periods beginning on or after 1 January 2022. The PWLB expects to apply these revisions to IFRS 9 in 2022-2023. The application of these revisions, which clarify which fees an entity includes when it applies the '10 per cent' test of IFRS 9 in assessing whether to derecognise a financial liability, are not expected to materially alter the presentation of the financial statements of the PWLB

- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, which has been revised as part of the IASB's 'Onerous Contracts – Cost of Fulfilling a Contract' (Amendments to IAS 37)'. Application is required for reporting periods beginning on or after 1 January 2022. The PWLB expects to apply these revisions to IAS 37 in 2022-2023. The application of these revisions, which deal with which costs a company should include when assessing whether a contract will be loss-making are not expected to materially alter the presentation of the financial statements of the PWLB.

## **(ii) Financial assets and income recognition**

The PWLB's loans advanced are financial assets held by the PWLB in order to collect contractual cash flows of principal and interest on specified dates. These loans advanced are therefore treated as financial assets measured at amortised cost.

Loans advanced are recognised when cash is advanced to borrowers and are derecognised when borrowers settle their obligations.

All loans advanced are recognised initially at fair value, representing the amount advanced to the borrower. Loans advanced are subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument

or, where appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest rate, cash flows are based on the contractual terms of the loan. Owing principally to the long maturities of most loans and the volatile pattern of early repayments, the actual cash flows and the expected lives of the loans cannot be estimated reliably. Thus premiums and discounts on early repayments are recognised when received and paid.

The fair value of loans outstanding, disclosed in note 5 to the accounts, is calculated as the aggregate net present value of future cash flows on each individual loan. These future cash flows are discounted at the PWLB's premature repayment rates at 31 March 2021.

## **(iii) Financial liabilities**

All the PWLB's liabilities relate to monies drawn from the National Loans Fund for the purpose of issuing loans to the PWLB's borrowers. All principal and interest payments receivable by the PWLB, along with any premiums for early redemption, are repayable to the National Loans Fund. Therefore all the PWLB's assets are also liabilities payable to the National Loans Fund. For this reason, the PWLB's liabilities are valued in the same way as the corresponding assets.

Liabilities are recognised when cash is advanced to the PWLB from the National Loans Fund and derecognised when cash is paid back to the National Loans Fund.

## **(iv) Statement of changes in equity**

These accounts do not present a statement of changes in equity, since all the funding of the PWLB is provided by the National Loans Fund, and matches the amount loaned by the PWLB to borrowers. The change in net funding is therefore already disclosed in the statement of financial position, which demonstrates the change in amounts owed to the National Loans Fund due to changes in the PWLB's loan portfolio.

## 2 Interest income

	2021 £m	2020 £m
Contractual interest income for fixed rate loans	3,074	3,040
Contractual interest income for variable rate loans	5	5
Premiums received	-	-
	<b>3,079</b>	<b>3,045</b>

## 3 Interest income by country

	2021 England £m	2021 Wales £m	2021 Scotland £m	2021 Total £m
Fixed rate loans	2,461	195	418	3,074
Variable rate loans	5	-	-	5
	<b>2,466</b>	<b>195</b>	<b>418</b>	<b>3,079</b>

	2020 England £m	2020 Wales £m	2020 Scotland £m	2020 Total £m
Fixed rate loans	2,420	197	423	3,040
Variable rate loans	5	-	-	5
	<b>2,425</b>	<b>197</b>	<b>423</b>	<b>3,045</b>

## 4 Loans advanced

	2021 £m	2020 £m
Fixed rate loan principal	85,312	85,284
Variable rate loan principal	485	410
<b>Loan principal outstanding</b>	<b>85,797</b>	<b>85,694</b>
Accrued income on fixed rate loans	552	564
Accrued income on variable rate loans	-	-
<b>Accrued income</b>	<b>552</b>	<b>564</b>
<b>Value of loans outstanding</b>	<b>86,349</b>	<b>86,258</b>

## 5 Loan principal

### 5a Loan principal outstanding - analysis by fixed and variable rate loans (and comparison with carrying value and fair value) and weighted average interest rate

	2021 Loan Principal	2021 Carrying Value	2021 Fair Value	2021 Weighted average interest rate*
	£m	£m	£m	%
Fixed rate loans	85,312	85,864	124,684	3.58
Variable rate loans	485	485	485	1.35
	<b>85,797</b>	<b>86,349</b>	<b>125,169</b>	<b>3.57</b>

	2020 Loan Principal	2020 Carrying Value	2020 Fair Value	2020 Weighted average interest rate*
	£m	£m	£m	%
Fixed rate loans	85,284	85,848	140,161	3.64
Variable rate loans	410	410	411	0.92
	<b>85,694</b>	<b>86,258</b>	<b>140,572</b>	<b>3.62</b>

\* This excludes overdue payments.

The fair value is the net present value of all future contractual cash flows for each loan. These cash flows are discounted at the PWLB's premature repayment rates at 31 March 2021.

The weighted average period to maturity of fixed rate loans at 31 March 2021 was 24.2 years (31 March 2020: 24.4 years).

At 31 March 2021, £101 million of loans (31 March 2020: £58 million) had been confirmed, but not yet advanced.

At 31 March 2021, there were less than £1 million of loans which borrowers had confirmed their intention to repay early (31 March 2020: nil). Such repayments are not reflected in the statement of financial position until the cash has been repaid by the borrower.

**5b Loan principal outstanding – analysis by period till maturity and period of interest rate fix**

	<b>2021 Principal outstanding by period till maturity  £m</b>	<b>2021 Principal outstanding by period of interest rate fix*  £m</b>	<b>2020 Principal outstanding by period till maturity  £m</b>	<b>2020 Principal outstanding by period of interest rate fix*  £m</b>
Up to 1 month / repayable on demand	151	487	228	369
More than 1 month but not more than 3 months	523	523	399	399
More than 3 months but not more than 1 year	2,278	2,278	2,062	2,128
More than 1 year but not more than 5 years	9,312	9,312	9,658	9,451
More than 5 years but not more than 10 years	11,749	11,413	11,505	11,505
More than 10 years but not more than 20 years	16,686	16,686	17,278	17,278
More than 20 years but not more than 30 years	9,506	9,506	9,338	9,338
More than 30 years but not more than 40 years	21,645	21,645	20,585	20,585
More than 40 years	13,947	13,947	14,641	14,641
	<b>85,797</b>	<b>85,797</b>	<b>85,694</b>	<b>85,694</b>

\* This indicates the period for which interest rates are fixed for all PWLB loans outstanding. This is the next re-pricing date for variable rate loans and the maturity date for fixed rate loans. Variable rate loans are only available to borrowers up to a maximum period till maturity of 10 years. All loans with a period till maturity of greater than 10 years are therefore fixed rate loans with equal periods till maturity and periods of interest rate fix.

**5c Loan principal outstanding - analysis by country**

	<b>2021 Principal outstanding £m</b>	<b>2020 Principal outstanding £m</b>
England	70,829	70,312
Wales	4,561	4,696
Scotland	10,407	10,686
	<b>85,797</b>	<b>85,694</b>

## 6 New loans advanced, loans maturing and early redemption of loan principal

	2021 £m	2020 £m
New loans advanced	2,861	10,422
Loans maturing	(2,700)	(2,228)
Loans redeemed early	(58)	(21)
<b>Net increase in loan principal</b>	<b>103</b>	<b>8,173</b>

## 7 Amounts owed to National Loans Fund

	2021 £m	2020 £m
Loan principal outstanding to borrowers	85,797	85,694
Accrued income on loans to borrowers	552	564
	<b>86,349</b>	<b>86,258</b>
Loan repayments not yet surrendered to National Loans Fund	381	308
	<b>86,730</b>	<b>86,566</b>

## 8 Reconciliation of operating income to net cash from/(used) in operating activities

	Note	2021 £m	2020 £m
Operating income	2	3,079	3,045
Increase in loan principal outstanding to customers	6	(103)	(8,173)
Decrease in accrued income	4	12	205
<b>Net cash from/(used) in operating activities</b>		<b>2,988</b>	<b>(4,923)</b>



## 9 Risk management

The PWLB's management of its risk exposure is described below.

### Credit risk

Credit risk is the risk that a counterparty will fail to discharge a contractual obligation, resulting in financial loss to the PWLB. Any such loss would be borne by the National Loans Fund.

Risk measurement

The credit risk exposures of the PWLB are shown below:

	Cash held at bank £m	Major local authorities £m	Parish councils and drainage boards £m	Harbour boards £m	Total £m
<b>2021</b>					
Cash and balances at bank	381	-	-	-	381
Loans outstanding to borrowers	-	86,106	242	1	86,349
<b>Total</b>	<b>381</b>	<b>86,106</b>	<b>242</b>	<b>1</b>	<b>86,730</b>
Loans confirmed but not advanced	-	100	1	-	101
<b>2020</b>					
Cash and balances at bank	308	-	-	-	308
Loans outstanding to borrowers	-	86,027	230	1	86,258
<b>Total</b>	<b>308</b>	<b>86,027</b>	<b>230</b>	<b>1</b>	<b>86,566</b>
Loans confirmed but not advanced	-	58	-	-	58

The PWLB's banking services are provided by the Government Banking Service.

The value of the loans above are based on carrying amounts as reported in the statement of financial position.

There were less than £1 million of overdue loan repayments at 31 March 2021 (31 March 2020: £4 million). All overdue loan repayments at 31 March 2021 have since been paid.

There were no renegotiated loans or assets considered impaired at 31 March 2021 (31 March 2020: no renegotiated loans or impaired assets).

Loans for which payment schedules have been amended in order to facilitate more efficient administration by local authorities are not considered to constitute renegotiated loans in credit risk terms.

As directed by the FReM, the PWLB does not assess its loans for impairments categorised as stage-1 (12 month expected credit losses) and stage-2 (lifetime expected credit losses) under IFRS 9. This is in accordance with the FReM's IFRS 9 adaptations, as recorded in its 'Interpretations and adaptations for the public sector context.'

The PWLB does not issue any financial guarantees.

#### Risk management

As stated on page 8, HM Treasury is legally required, before advancing a loan from the PWLB, to be satisfied that there is sufficient security for the loan's repayment.

In dealing with applications, the DMO on behalf of HM Treasury will ask the local authority for assurances that the authority is acting properly and according to statute. The DMO and HM Treasury will rely on the answers to these questions. Loans are automatically secured by statute on the revenues of the authority and HM Treasury will not refuse an application if satisfied that it conforms to the policy framework governing the lending arrangements. When local authorities borrow, they must have regard to the Prudential Framework as set out by the Chartered Institute of Public Finance and Accountancy and by the Ministry of Housing, Communities & Local Government, the Scottish Government or Welsh Assembly Government as applicable to ensure they are borrowing prudently. HM Treasury may refer to these bodies or seek further assurance from the local authority to satisfy itself about the conformity of a loan application.

The PWLB lending facility is only available to local authorities and other prescribed bodies.

Parish, town and community council applicants for loans need borrowing approval from the Ministry of Housing, Communities & Local Government, or, in the case of Welsh councils, the Welsh Assembly Government. Drainage board applicants for loans need a loan sanction from the Department for Environment, Food & Rural Affairs.

Loans to harbour boards are secured on property and are made only with the provision of a guarantee from the local authority. In addition, the business plan is reviewed. No new loans were made to harbour boards in the period ended 31 March 2021 (31 March 2020: no loans).

In accordance with the PWLB's lending policy, HM Treasury does not differentiate borrowers by credit rating. Where relevant, it applies any concessionary rates applicable under the lending policy.

HM Treasury continuously monitors its total PWLB lending against a limit set by statute.

#### Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises interest rate risk, currency risk and other price risk. The PWLB's activities do not give rise to interest rate risk for the PWLB itself, but form part of the interest rate risk profile of the National Loans Fund.

There is no exposure to currency risk or other price risk.

#### Liquidity risk

Liquidity risk is the risk that the PWLB will encounter difficulty in meeting obligations associated with financial liabilities.

The PWLB's activities are not considered to give rise to liquidity risk for the PWLB itself, but rather form part of the liquidity risk profile of the National Loans Fund. The PWLB's cash flow requirements are forecast and monitored daily.

## 10 Related party transactions

The PWLB is a lending facility of HM Treasury operating within the DMO, an executive agency of HM Treasury. During the year, the PWLB had a significant number of material transactions with the National Loans Fund, a fund which is administered by HM Treasury. The National Loans Fund lends cash to the PWLB so that it can subsequently lend the cash to its borrowers. In turn, the PWLB will return cash to the National Loans Fund as interest payments on loans are received and loans are redeemed.

The total amount owed by the PWLB to the National Loans fund at 31 March 2021 was £86,730 million.

The Accounting Officer and other key management personnel of the PWLB had no transactions with the PWLB during the year and were remunerated by the DMO.

## 11 Events after the reporting date

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the Accounting Officer authorises the accounts for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.







# Accounts Direction





## Accounts Direction given by HM Treasury in accordance with section 3(6) of the National Loans Act 1968

1. This accounts direction applies to the function of HM Treasury called the PWLB lending facility.
2. The PWLB lending facility is the function relating to "local loans" (as defined in section 3(12) of the National Loans Act 1968), as transferred to HM Treasury pursuant to Art 4 of The Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020.
3. The UK Debt Management Office, on behalf of HM Treasury, will prepare the Annual Report and Accounts in respect of the PWLB lending facility for the period starting 1 April 2019 until 31 March 2020 and each subsequent financial year, which give a true and fair view of its state of affairs at the reporting date, and of its income and expense and cash flows for the year then ended.
4. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.
5. The accounts shall present a statement of comprehensive income, a statement of financial position and a statement of cash flows. The statement of financial position shall present assets and liabilities in order of liquidity.
6. The notes to the accounts shall include disclosure of assets and liabilities, and of income and expense, relating to other central government funds including the National Loans Fund.
7. The report shall include:
  - (i) a performance report, including information on financial performance and financial position;
  - (ii) an accountability report, including a governance statement.
8. This accounts direction shall be reproduced as an appendix to the accounts.
9. This accounts direction supersedes all previous accounts directions issued by HM Treasury.

### **Vicky Rock**

Interim Director, Public Spending Group  
HM Treasury  
2 March 2020

**This publication is available in electronic form on the DMO website [www.dmo.gov.uk](http://www.dmo.gov.uk).**

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