



Public Works Loan Board

*125th Annual Report
1999-2000*

*Presented to Parliament pursuant to section 5 of the
Public Works Loans Act 1875*

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The Public Works Loan Board is an independent and unpaid statutory body which originated in 1793 and became permanently established in 1817. Since 1946 it has consisted of twelve Commissioners appointed by the Crown to hold office for four years; three Commissioners retire each year on 1 April but are eligible for reappointment.

The functions of the Commissioners, derived chiefly from the Public Works Loans Act 1875 and the National Loans Act 1968, are to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. At present nearly all borrowers are local authorities requiring loans for capital purposes. The security for money borrowed by a local authority, together with interest, is charged indifferently on all its revenues; all securities created rank equally without any priority. The Commissioners are legally required before making a loan to satisfy themselves that an authority is able to service and repay the loan.

Moneys are provided by Act of Parliament and drawn from the National Loans Fund. Rates of interest are determined by HM Treasury. The Board's accounts are audited by the Comptroller and Auditor General, whose reports on them are laid before Parliament.

The Commissioners holding office during the year were:

<i>Original appointment began</i>		<i>Current appointment ends</i>
	<i>Chairman</i>	
1994	A. D. LOEHNIS, CMG Director, St James's Place Capital plc; Former Director, SG Warburg Group plc; Former Executive Director, Bank of England	2002
	<i>Deputy Chairman</i>	
1978	MISS V. J. DI PALMA, OBE Director, Mobile Training Limited; President, The Association of Chartered Certified Accountants 1980-81	2002
1995	THE BARONESS NOAKES Partner, KPMG; Non-Executive Director, Bank of England; President, Institute of Chartered Accountants in England and Wales 1999-2000	2003
1996	MRS R. V. HALE Director, Rita Hale & Associates Limited; Former Head of Local Government Division, Chartered Institute of Public Finance & Accountancy	2000
1996	J. A. PARKES, CBE Former Chief Executive, Humberside County Council; President, Society of County Treasurers 1987-88	2000
1996	R. BURTON Former City Treasurer, Birmingham City Council; President, Society of Metropolitan Treasurers 1996-97	2000
1996	J. ANDREWS Chief Executive, Glasgow City Council	2001
1997	T .W. FELLOWES Former Deputy Chairman, Gerrard & National Holdings plc; Chairman, London Discount Market Association 1995-97	2001
1997	B. M. TANNER, CBE DL Former Chief Executive, Somerset County Council; President, Society of County Treasurers 1989-90	2001
1997	MRS R. TERRY Director, HACAS Exchequer Services Limited; Former Partner, Touche Ross & Company	2003
1998	D. W. MIDGLEY President, North East Chamber of Commerce; Former Chief Executive, Newcastle Building Society	2002
1999	L. NIPPERS Director of Finance and Central Services, Newport County Borough Council	2003

Annual Report

1999-2000

The Public Works Loan Board, pursuant to section 5 of the Public Works Loans Act 1875, makes the following Report for the financial year ended 31 March 2000.

Membership of the Board

By virtue of the Public Works Loans Act 1946 and the Royal Warrants of appointment, the terms of office of Dame Sheila Masters, DBE, Mr L. B. Woodhall and Mrs R. Terry expired on 1 April 1999. By Royal Warrant Dame Sheila and Mrs Terry were reappointed as Commissioners for further terms of four years and Mr L. M. Nippers was appointed to be a Commissioner for a term of four years in place of Mr Woodhall.

The term of Mr R. Burton expired on 1 April 2000. The Board places on record its thanks to Mr Burton and expresses its appreciation of his valued contribution during his four years as a Commissioner.

It was announced in March 2000 that Dame Sheila was to be elevated to the peerage and she has assumed the title of Baroness Noakes.

Assistant Secretary to the Board

Miss L. M. Ashcroft, the Board's Assistant Secretary, retired at the end of July 1999 after thirty-three years service with the Board; she had been Assistant Secretary since 1991. The Commissioners record their thanks for her loyal and efficient service to the Board.

Mr M. S. Frankel was appointed Assistant Secretary in succession to Miss Ashcroft.

Other staff

During the year two long serving members of staff took early retirement, Mrs D. N. Cross and Mrs C. A. Simpkins. Both of these had joined the Board in 1965, since when they had been the mainstay of the Board's data processing. In addition they will be remembered for the outstanding buffets they had voluntarily provided for the Commissioners' annual receptions over many years.

Statutory provisions for loans

The loans advanced by the Board during the year were made from funds provided under section 4(1) of the National Loans Act 1968. Amended by section 130 of the Finance Act 1990, this sets a limit of £55,000 million on the total of loans outstanding to the Board at any one time, but also contains a provision to alter the limit further to a sum not exceeding £70,000 million.

At 31 March 2000, the balance of principal outstanding from borrowers, together with loans committed but not yet advanced, was £46,060.3 million.

Table 1: Summary of transactions

	<i>In the Year 1999-2000</i>		
	<i>Advances</i>	<i>Repayments of principal</i>	<i>Interest received</i>
	£	£	£
Loans on local revenues to:			
Local Authorities in England:			
County Councils	984,942,732	625,803,193	431,235,429
London Borough Councils	1,139,517,670	1,002,129,329	847,875,372
Metropolitan District Councils (a)	1,598,187,285	1,171,471,665	983,456,854
Non-Metropolitan District Councils	1,044,177,349	1,002,141,027	627,466,303
Parish and Town Councils	8,079,261	3,412,264	3,694,214
Others	99,073,883	84,700,084	91,991,965
	<u>4,873,978,180</u>	<u>3,889,657,561</u>	<u>2,985,720,135</u>
Local Authorities in Wales:			
Principal Councils	590,645,668	452,102,694	249,090,706
Community Councils	300,620	125,074	112,544
Others	3,746,686	3,606,362	2,516,006
	<u>594,692,974</u>	<u>455,834,134</u>	<u>251,719,257</u>
Local Authorities in Scotland:			
Principal Councils	1,499,337,929	1,271,241,838	780,460,608
Other	3,079,986	12,182,097	30,194,841
	<u>1,502,417,915</u>	<u>1,283,423,935</u>	<u>810,655,449</u>
Total loans on local revenues	<u>6,971,089,069</u>	<u>5,628,915,630</u>	<u>4,048,094,841</u>
Loans on property to:			
England: Harbour Authorities	0	148,166	14,663
Wales: Harbour Authorities	0	0	0
Scotland: Harbour Authorities	0	247,290	1,443,421
Total loans on property	<u>0</u>	<u>395,456</u>	<u>1,458,084</u>
	<u>6,971,089,069</u>	<u>5,629,311,085</u>	<u>4,049,552,925</u>
Add totals from 1817:			
To 31 March 1999	134,865,392,371	90,088,869,673	74,319,656,783
Principal remitted or extinguished:			
To 31 March 1999		58,004,940 (c)	
In the year 1999-2000		0	
Total at 31 March 2000	<u>141,836,481,440</u>	<u>95,776,185,698</u>	<u>78,369,209,708</u>

(a) Includes authorities administering debt on behalf of former Metropolitan County Councils

(b) See page 15 – Repayments in arrear at 31 March 2000

(c) Includes £55,013,916 extinguished on privatisation of water authorities

and balances outstanding

<i>Balances outstanding at 31 March 2000</i>			
<i>Principal</i>		<i>Interest</i>	
<i>Due but not yet paid</i>	<i>Not yet due</i>	<i>Due but not yet paid</i>	
£	£	£	
0	5,302,719,496	0	Loans on local revenues to: Local Authorities in England: County Councils London Borough Councils Metropolitan District Councils (a) Non-Metropolitan District Councils Parish and Town Councils Others
0	9,420,385,507	0	
0	11,620,531,696	0	
0	6,580,047,133	4,313	
8,037	47,704,089	21,324	
72,040	1,162,045,620	100,172	
80,077	34,133,433,542	125,809	
0	3,003,565,247	9,052	Local Authorities in Wales: Principal Councils Community Councils Others
1,674	1,485,850	1,019	
0	33,454,438	0	
1,674	3,038,505,535	10,070	
0	8,483,640,492	0	Local Authorities in Scotland Principal Councils Other
0	387,859,759	400	
0	8,871,500,252	400	
81,751	46,043,439,329	136,279	Total loans on local revenues
0	31,938	0	Loans on property to: England: Harbour Authorities Wales: Harbour Authorities Scotland: Harbour Authorities
0	0	0	
0	16,742,724	0	
0	16,774,662	0	Total loans on property
81,751	46,060,213,991	136,279 (b)	
			Add totals from 1817: To 31 March 1999 Principal remitted or extinguished: To 31 March 1999 In the year 1999-2000
81,751	46,060,213,991	136,279	Total at 31 March 2000
			
46,060,295,742			

Summary of transactions

A statement which shows the advances made, repayments of principal and interest received during the year and the balances outstanding analysed according to types of borrower in England, Wales and Scotland appears on pages 2-3 (table 1). Loans amounting to £6,971.1 million were made in 1999-2000. Appendix A (table 14) on page 19 gives an historical summary of the Board's lending.

Loans in respect of 1998-99

Details of loans advanced in 1998-99 were given in the Board's Annual Report for that year, but local authorities are entitled to carry forward into the following year a portion of their quotas undrawn in the preceding year. Conversely, authorities may have overdrawn their quotas on the basis of unfulfilled estimates of the amounts of Credit Approvals or Capital Consent Allocations to be used.

The final figures for these two items are now available. 1998-99 quotas carried forward and drawn in 1999-2000 amounted to £325.9 million and over-issues made during 1998-99, which were deductible from 1999-2000 quotas, amounted to £27.6 million. After corresponding adjustments, the loans issued in respect of 1998-99 amounted to £6,995.1 million.

General Review of 1999-2000

Determination of quotas

The Commissioners, after consulting HM Treasury, decided that the quota arrangements for 1999-2000 should be the same as those for 1998-99, and these are detailed below. As in previous years, the quota formula was designed, firstly, to enable the Board to meet the bulk of local authorities' requirement for new, long-term borrowing and, secondly, to encourage authorities, in line with Government intentions, to apply their set-aside provisions to meeting their credit liabilities.

The quota entitlement for each authority was an amount equivalent to:

for authorities in England and Wales, the sum of:

Basic and Supplementary Credit Approvals used in 1999-2000

and

Repayments of principal due in 1999-2000 on loans from the Board;

for authorities in Scotland, the sum of:

Capital Consent Allocations used in 1999-2000

and

Repayments of principal due in 1999-2000 on loans from the Board

less

Scheduled debt amortisation.

Loans were made at one of two sets of interest rates: 'Lower' rates, which were determined close to the cost of Government borrowing, and 'Higher' rates, which were close to, but just below, market rates.

For authorities in England and Wales the 'Lower' rates applied to that part of the quota remaining after deduction of an authority's provision to meet credit liabilities unapplied at 31 March 1999 (including that used internally but not declared as applied).

For authorities in Scotland the 'Lower' rates applied to that part of the quota remaining after deduction of an authority's capital receipts unapplied at 31 March 1999.

Lending policy

Since early 1985 the Commissioners have in their circulars pointed out that they could not lend to an authority which had acted illegally and that, additionally, the Board had a statutory obligation to satisfy itself before advancing a loan that an authority was able to service and repay the loan. Under the provisions of the Local Government Finance Act 1992 a billing authority is obliged to set its council tax for a financial year not later than 11 March in the preceding year. All authorities complied with these requirements and the Commissioners found no cause in this respect to make further enquiries of any authority during the year.

The Commissioners continued to offer loans in addition to the quota both where authorities might be encountering exceptional difficulty and also in wider circumstances. These circumstances included where an authority wished to refinance maturing market debt, to replace short-term borrowings or to restructure its debt portfolio. When determining whether to agree to additional loans, the Commissioners took account of the level of external investments held by the local authority and the extent to which these investments might be used instead.

Loans made in addition to the quota entitlement attracted the 'Lower' or 'Higher' set of quota rates, as appropriate, that would have been applicable had the additional sum formed part of the quota entitlement in the normal way.

Changes to the Board's facilities

Following consultations with other government departments and the local authority associations, the Board's lending arrangements at the beginning of the year, set out in Circular 118 of 25 March 1999, were largely unchanged from the previous year.

As a result of HM Treasury's concern about interest rates, explained in detail elsewhere (see page 14), the Commissioners agreed that, with effect from 22 February 2000, the date of Circular 119, they would not normally make loans for periods greater than 25 years.

Applications for loans

During the year 1,240 applications for loans at quota rates totalling £6,129.2 million were considered and approved to the extent of £6,127.1 million. Two applications, the same number as last year, were reduced by the Commissioners because the amount sought seemed likely to exceed the balance of quota available.

Ninety-nine authorities submitted 160 applications for special consideration, of which 139 were approved in full. Of these, 27 were from authorities seeking to refinance maturing long-term market debt, four from authorities wishing to replace short-term market loans and other borrowings, 47 from authorities wishing to repay market debt prematurely and 61 from authorities wishing to restructure their portfolios of loans from the Board. Sixteen applications were approved in part only: nine from authorities wishing to restructure part of their PWLB debt portfolios, five from authorities wishing to finance the premature repayment of market debt and two from authorities wishing to replace short-term borrowings. In each case, part of the amount was refused because the authority held external investments which in the Commissioners' view could be used instead. Four authorities were refused altogether on the same grounds. A further one authority was refused because it is not the Commissioners' practice to grant additional funds to refinance short-term borrowings in the year that they are raised. Of the £4,705 million requested a total of £4,453 million was granted, and of this sum £2,520 million was actually drawn.

Since January 1995 the Commissioners have made available sums in addition to the

quota for refinancing loans from the Board having an outstanding balance of not more than £100,000. The Board's normal rates for loans in addition to the quota and for premature repayments apply. During 1999-2000 twelve applications totalling £19,592,431 and covering 1,766 small loans were approved. One hundred and twenty-nine applications totalling £149,068,836 and covering 17,547 loans have been approved and refinanced since the scheme was introduced.

Applications for advances were received from 342 local authorities, including 60 non-principal authorities, mostly parish councils in England, community councils in Wales and internal drainage boards. Out of a total of 443 principal authorities 169 did not make loan applications to the Board during the year. Seventy-eight principal authorities had no debt outstanding to the Board as at 31 March 2000.

Reorganisation of local government

No new local authorities were formally constituted during the year.

Harbour authorities

The Board has powers to make loans to fishery harbours, as defined in the Sea Fish Industry Act 1951, and for the purposes of marine works in Scotland. One loan, for £1,800,000, was approved in respect of a harbour authority in Scotland but was not taken up.

Incidence of drawings

The timing of loan applications was, as usual, closely related to the authorities' perception of current and future interest rate movements. August 1999 saw fixed-rate lending in excess of 25 years rise to nearly £1,000 million. This may have reflected expectations of an impending rise in rates at these maturities. In the event, the third quarter of the year saw the Board's lending rates fall to their lowest for 45 years, reflecting historically low yields of long-dated gilts. This resulted in heavy demand for long-dated fixed-rate loans. As shown by table 12 on page 12, some £1,676.5 million was lent for over 25 years at 4¹/₄% and most of this will have been accounted for within the amount of nearly £2,260 million lent during November 1999. As is explained in more detail elsewhere (see page 14), on 3 December 1999 HM Treasury increased rates by 1/2% on loans for periods over 25 years. Very long-dated lending fell immediately, remained low during January 2000, and ceased altogether from 22 February 2000 with the change in the Board's facilities described on page 5.

The monthly totals of drawings are listed below (table 2) and the relationship between rates of interest and the incidence of advances is illustrated by tables 3-5 on page 7.

Table 2: Monthly totals of advances

	<i>Fixed rate</i>		<i>Variable rate</i>		<i>£ million</i>	
	<i>New</i>	<i>Converted from variable</i>	<i>New</i>	<i>Converted from fixed</i>	<i>1999-2000 Total</i>	<i>1998-99 Total</i>
April	208.0	2.9	-	-	210.9	908.6
May	122.4	-	-	-	122.4	131.6
June	301.9	-	-	3.0	304.9	470.2
July	404.4	-	2.3	119.6	526.3	319.3
August	952.7	13.2	4.0	106.8	1,076.7	190.0
September	268.3	4.5	-	75.2	348.0	1,177.2
October	288.2	-	-	41.4	329.6	564.2
November	2,259.8	31.5	1.6	79.1	2,372.0	328.6
December	198.0	-	3.8	6.5	208.3	471.0
January	205.1	-	-	91.2	296.3	398.3
February	82.9	6.0	5.6	57.1	151.6	611.2
March	809.6	23.5	10.7	180.3	1,024.1	573.9
	6,101.3	81.6	28.0	760.2	6,971.1	6,144.1

Table 3: Base lending rate and the 3 Months variable rate

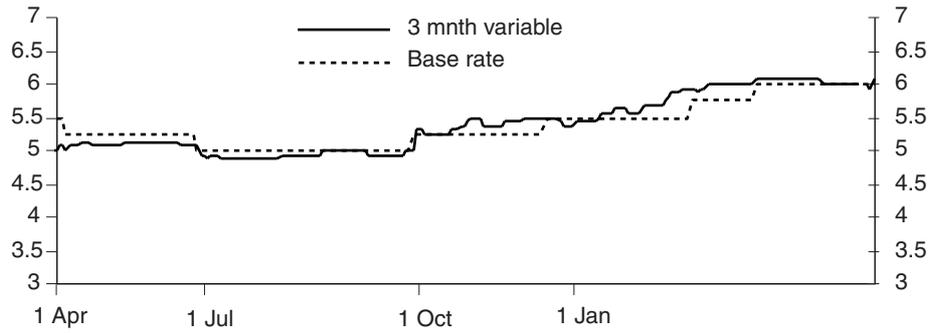


Table 4: Fixed 'Lower' Rate

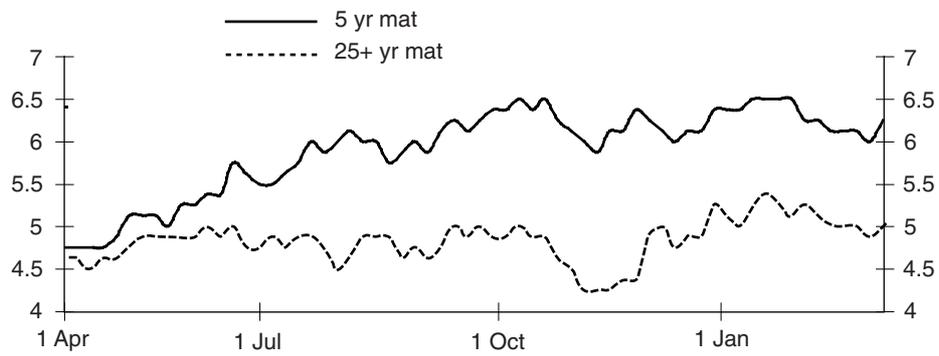
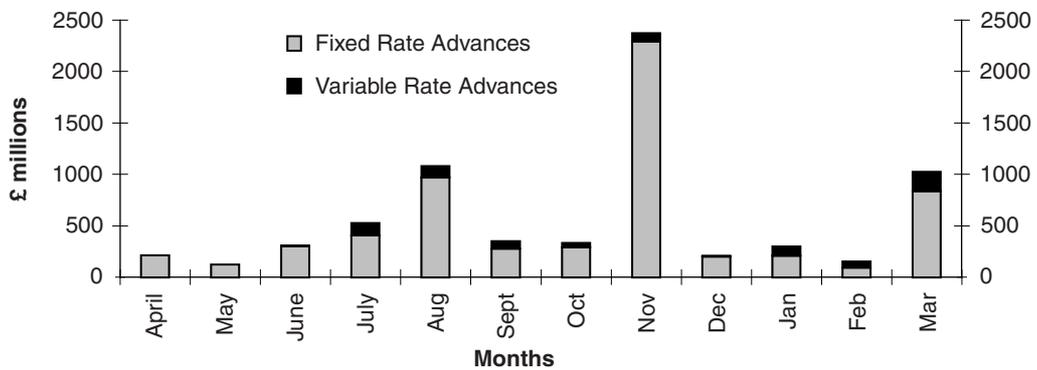


Table 5: Monthly Advances



Repayment periods

As in previous years, local authorities showed comparatively little interest in the shorter loan periods since the keenest interest rates continued to be available at the longer end. From a total of £6,101 million of new fixed rate loans, only £23 million (0.4%) was taken for the minimum available period of one year, £4,953 million (81%) was taken for periods over 25 years, and £420 million (7%) was taken for the maximum available, until 22 February 2000, of sixty years.

The proportion of loans taken for over 25 years increased from 80% in 1998-1999 to 82% in 1999-2000. The proportion advanced for periods of up to five years was 1%, down from 5% in 1998-1999. The 1/2% rate increase on 3 December 1999, followed by the decision in February 2000 not normally to lend for more than 25 years, explains why the average repayment period for new loans fell from 32.9 years in 1998-99 to 30.5 years in 1999-2000. The point is underlined when it is noted that in the first half of 1999-2000 the average period for new fixed loans was 32.4 years while in the latter half it was only 18.4 years. The marked reduction reflected the rate increase in December 1999 and then the withdrawal of the facility for lending for longer than 25 years, after which authorities wishing to borrow long tended to choose the shorter end of the new maximum band of more than 15 but less than 25 years.

Non-quota A loans

If circumstances arise in which an authority needs to borrow immediately and cannot raise the money by other means, the Commissioners are prepared, within the limits prescribed by law, to act as lender of last resort and to make loans in excess of the quota, charging the appropriate rate of interest in the non-quota A set of rates prescribed by HM Treasury. No applications have been received since 1975.

Non-quota B loans

This category of loans is available to any authority able to show that it needs additional capital finance in the relatively near future; it does not need to demonstrate that money is unavailable in the open market. The rate of interest charged on these loans is the appropriate rate in the non-quota B set of rates prescribed by HM Treasury. There have been no applications since 1976.

Loans made in 1999-2000

Loans made during the year amounted to £6,971.1 million and are analysed in tables 11-13 on pages 11-13. Where appropriate, figures for the preceding year are shown for the purpose of comparison.

The amount of quota drawn was £3,592 million and the figures in tables 6 and 7 on page 9 show the gross and net lending for the year and the amounts advanced at the 'Lower' and 'Higher' rates of interest. The figure of £3,592 million was less than last year's figure of loans against quota of £4,088 million, but lending overall was up from the figure in 1998-99 of £6,144.1 million, due to successful applications for additional quota.

Advances in respect of new fixed rate loans amounted to £6,101.2 million, and of the remainder, £28.0 million was advanced at variable rates of interest, £760.2 million related to conversions from fixed to variable rate loans and £81.6 million to conversions from variable to fixed rate loans (table 8, page 9).

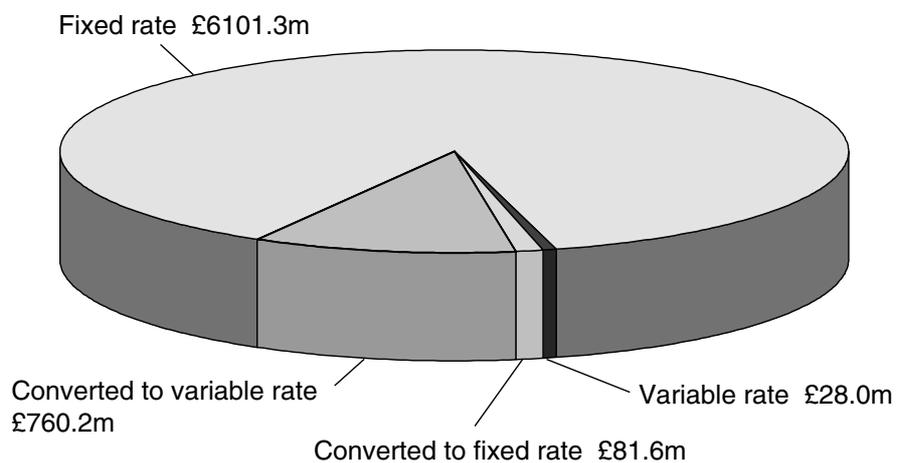
Table 6: Analysis of Lending

	<i>Gross advances</i>	<i>Principal repayments</i>	<i>1999-2000 Net lending</i>	<i>£ million 1998-1999 Net lending</i>
Quota loans (see page 4)	3,592	1,825	1,767	1,824
Loans in addition to quotas (see page 5)	2,520	-	2,520	1,711
Conversions (see page 15)	841	841	-	-
Premature payments (see page 15)	-	2,945	(2,945)	(1,734)
Refinancing of loans with small balances (see page 5)	18	18	-	-
	<u>6,971</u>	<u>5,629</u>	<u>1,342</u>	<u>1,801</u>

Table 7: Advances at 'Lower' and 'Higher' rates of interest

	<i>'Lower'</i>	<i>'Higher'</i>	<i>£ million 1999-2000 Total</i>
Quota loans	2,788	804	3,592
Loans in addition to quotas	2,469	51	2,520
Conversions	705	136	841
Refinancing of loans with small balances	14	4	18
	<u>5,976</u>	<u>995</u>	<u>6,971</u>

Table 8: New Advances



Tables 9 and 10 below illustrate the average rate of interest and the average repayment period, weighted by the amount of each advance, for all new loans in each of the last 5 years.

Table 9: Average rate (%)

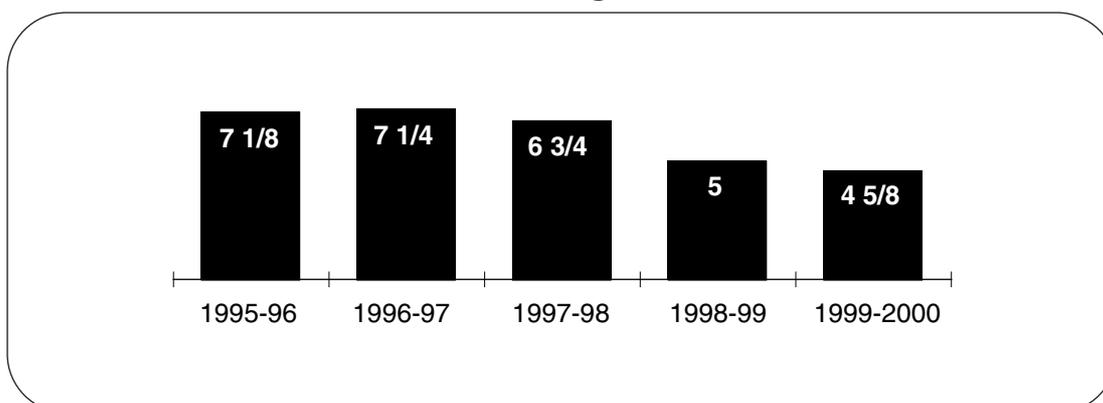
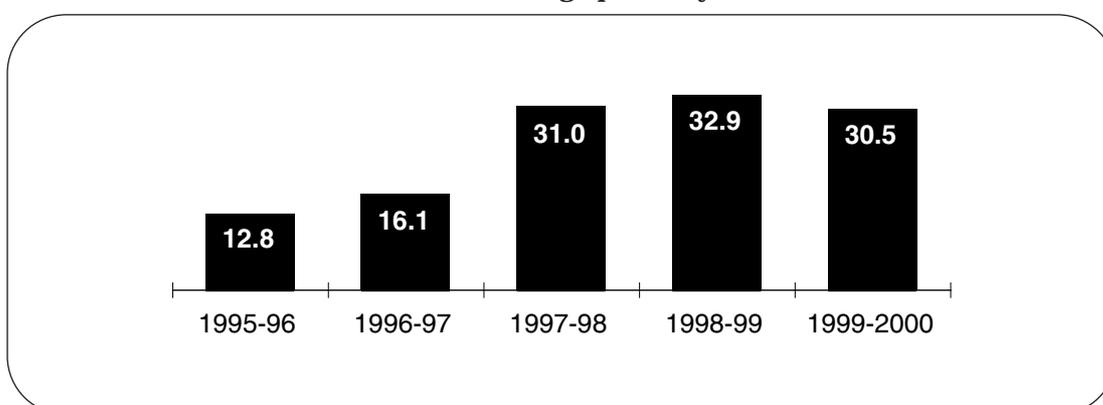


Table 10: Average period (years)



The average rate payable on variable rate loans outstanding at 31 March 2000 was approximately 5 1/2% p.a. (5 1/8% p.a. at 31 March 1999).

The number of loan accounts opened during 1999-2000 was 1,628 (1,632 in 1998-1999). At 31 March 2000 the total number of open accounts was 34,522, a decrease of 3,604 from the previous year; this continues the general trend of recent years. The number of premature repayments in the year, which included 649 loans repaid as the result of authorities using additional sums to restructure their portfolios, rose to 1,925 from 1,144 in 1998-1999. 1,766 accounts (760 in 1998-1999) were closed as a result of the refinancing of loans with small balances.

Table 11: Type of borrower

	<i>Fixed rate</i>		<i>Variable rate</i>		<i>Totals</i>		<i>£ million</i>	
	<i>Converted from</i>		<i>Converted from</i>		<i>1999-2000</i>	<i>1998-99</i>		
	<i>New</i>	<i>Variable</i>	<i>New</i>	<i>Fixed</i>				
Local authorities in England								
County Councils	961.2	-	-	23.8	984.9		756.8	
London Borough Councils	1,132.5	6.0	-	1.0	1,139.5		917.2	
Metropolitan District Councils (a)	1,274.7	4.0	4.0	315.4	1,598.2		1,390.3	
Non-Metropolitan District Councils	856.8	39.7	20.9	126.9	1,044.3		883.8	
Parish Councils	7.9	0.2	-	-	8.1		6.4	
Others	85.6	-	1.1	12.3	99.1		145.4	
	4,318.7	49.9	26.0	479.4	4,874.0	(69.92%)	4,099.8	(66.7%)
Local authorities in Wales								
Principal Councils	516.7	6.5	-	67.5	590.6		465.1	
Community Councils	0.3	-	-	-	0.3		0.1	
Others	3.7	-	-	-	3.7		4.8	
	520.7	6.5	-	67.5	594.7	(8.53%)	470.0	(7.7%)
Local authorities in Scotland								
Principal Councils	1,259.4	24.6	2.0	213.3	1,499.3		1,569.9	
Others	2.5	0.6	-	-	3.1		4.3	
	1,261.9	25.2	2.0	213.3	1,502.4	(21.55%)	1,574.2	(25.6%)
Total	6,101.3	81.6	28.0	760.2	6,971.1		6,144.1	

(a) Includes authorities administering debt on behalf of former Metropolitan County Councils.

Table 12: Rates of interest and periods for repayment

						<i>£ million</i>
	<i>up to 5</i>	<i>Over 5 but</i>	<i>Over 10 but</i>	<i>Over 15 but</i>	<i>Over 25</i>	<i>Total</i>
	<i>years</i>	<i>not over</i>	<i>not over</i>	<i>not over</i>	<i>years</i>	<i>1999-2000</i>
		<i>10 years</i>	<i>15 years</i>	<i>25 years</i>		
Fixed rate loans						
Rate of interest						
per annum						
4 1/4	-	-	-	-	1,676.5	1,676.5
4 3/8	-	-	-	-	18.2	18.2
4 1/2	-	54.5	-	-	1,015.9	1,070.4
4 5/8	-	3.0	-	7.0	345.0	355.0
4 3/4	-	-	2.5	24.6	794.9	822.0
4 7/8	6.4	7.0	0.5	587.8	830.1	1,431.8
5	3.5	5.1	0.1	208.9	198.7	416.3
5 1/8	0.3	4.0	-	60.6	85.6	150.5
5 1/4	5.0	0.6	2.6	36.7	40.2	85.1
5 3/8	6.2	0.3	10.0	32.0	2.4	50.9
5 1/2	-	0.4	13.0	5.3	-	18.7
5 5/8	2.0	4.5	0.6	11.9	3.2	22.2
5 3/4	-	0.1	0.1	0.9	0.2	1.3
5 7/8	0.4	2.7	4.0	0.3	-	7.4
6	17.3	0.9	0.1	0.4	-	18.7
6 1/8	4.9	0.2	10.0	0.1	0.6	15.8
6 1/4	1.9	1.4	-	0.1	-	3.4
6 3/8	14.6	3.0	0.1	-	-	17.7
6 1/2	1.0	-	-	-	-	1.0
6 5/8	-	-	-	-	-	-
	63.5	87.7	43.6	976.6	5,011.5	6,182.9
Variable rate loans	584.6	203.6	-	-	-	788.2
All loans	648.1	291.3	43.6	976.6	5,011.5	6,971.1

Table 13: Method and period for repayment

<i>Method of repayment</i>	<i>Period for repayment</i>					<i>£ million</i>	
	<i>Up to 5</i>	<i>Over 5 but</i>	<i>Over 10 but</i>	<i>Over 15 but</i>	<i>Over 25</i>	<i>1999-2000</i>	<i>Total</i>
	<i>years</i>	<i>not over</i>	<i>not over</i>	<i>not over</i>	<i>years</i>		<i>1998-99</i>
		<i>10 years</i>	<i>15 years</i>	<i>25 years</i>			
Fixed rate loans							
new loans -							
Maturity	56.8	85.5	23.1	946.6	4,933.1	6,045.1	5,608.4
Annuity	0.7	1.3	0.4	2.8	2.9	8.1	19.8
Equal instalments							
of principal	6.0	0.9	20.1	3.7	17.4	48.1	115.4
	63.5	87.7	43.6	953.1	4,953.4	6,101.3 (87.5%)	5,743.6 (93.5%)
Fixed rate loans							
converted loans -							
Maturity	-	-	-	23.5	58.1	81.6	304.2
Annuity	-	-	-	-	-	-	0.3
Equal instalments							
of principal	-	-	-	-	-	-	-
	-	-	-	23.5	58.1	81.6 (1.2%)	304.5 (5.0%)
Variable rate loans							
new loans-							
Maturity	25.4	1.5	-	-	-	26.9	61.0
Equal instalments							
of principal	-	1.1	-	-	-	1.1	2.3
	25.4	2.6	-	-	-	28.0 (0.4%)	63.3 (1.0%)
Variable rate loans							
converted loans-							
Maturity	381.6	155.2	-	-	-	536.8	32.7
Equal instalments							
of principal	177.6	45.8	-	-	-	223.4	-
	559.2	201.0	-	-	-	760.2 (10.9%)	32.7 (0.5%)
All loans							
Maturity	463.8	242.2	23.1	970.1	4,991.2	6,690.4 (95.9%)	6,006.3 (97.8%)
Annuity	0.7	1.3	0.4	2.8	2.9	8.1 (0.1%)	20.1 (0.3%)
Equal instalments							
of principal	183.6	47.8	20.1	3.7	17.4	272.6 (3.9%)	117.7 (1.9%)
	648.1	291.3	43.6	976.6	5,011.5	6,971.1	6,144.1

Rates of interest

Quota rates

The Board's interest rates are determined by HM Treasury in accordance with the National Loans Act 1968. The rates are set by reference to rates in the secondary market for gilts to share the benefits of Government borrowing rates within the public sector, but in such a way as to ensure that the National Loans Fund makes no loss on its lending operations. For advances made from 1 April 1996 there have been two sets of interest rates: the 'Lower' set, normally being close to the cost of Government borrowing, and the 'Higher' set, being close to, but just below, market rates.

Fixed rates of interest are normally determined weekly and take effect from the start of business on a Tuesday. On thirteen occasions during the year additional changes were made on other days, following significant movement in the gilt yield curve.

The rates of interest on new variable rate loans, for both 'Lower' and 'Higher' quota loans, were determined daily by reference to a formula based on the cost of Government borrowing. For loans on which the rate of interest was variable at one or three monthly intervals, the cost of Government borrowing was defined as the market rate for one or three month eligible bank bills, as appropriate, expressed as a yield. For loans on which the rate of interest was variable at six month intervals, the cost of Government borrowing was the lower of the market rate for six month eligible bank bills and the six month London Inter-Bank Offered Rate.

By the beginning of December 1999, Government borrowing at long maturities, as measured by the yield of government debt in the secondary market, was at its lowest for forty years. HM Treasury concluded that the National Loans Fund was at risk of losses from lending at long maturities because, with no gilts in issue beyond 30 years, there was no hard information on borrowing costs for that period. Also, in the light of no significant new borrowing by HM Treasury at a time when demand was strong, yields from 30-year gilts were artificially depressed. The distortion in the yield curve, combined with reduced issuance and the inversion of the yield curve at longer maturities, meant that HM Treasury considered it no longer appropriate to estimate the cost of Government borrowing at maturities greater than 25 years by extrapolating out from the end of the current gilt yield curve. In these circumstances, on 3 December 1999, an additional margin was added to gilt yields to set the rate for loans of over 25 years.

HM Treasury continued to keep the long rates under review. By February 2000 it had concluded that, as the yields at the longest maturities remained artificially low, lending at long maturities risked actual losses to the National Loans Fund and that it would be imprudent to set rates for periods of more than 25 years, regardless of whether it might be possible to set a rate which technically complied with section 5 of the National Loans Act. In these circumstances and in order not to exacerbate the situation, the Commissioners agreed that they would no longer normally make loans of more than this length of time. At the same time, HM Treasury ceased to determine rates for quota loans of more than 25 years.

The Board's Interest Rate Notices continue to show rates for loans of more than 25 years, chiefly to cater for any residual contractual obligations to make loans at these maturities. These rates are also used for calculating premiums and discounts for early repayment of existing loans.

Tables showing all the rates of interest in force during the year are available on application to the Board at the address shown at the end of this Report.

Non-quota rates

The rates of interest for non-quota A and non-quota B loans were set at 1% p.a. and 2% p.a. respectively above those for 'Lower' rate quota loans for all periods and methods of repayment.

Repayments

Repayments of principal amounting to £5,629.3 million, including £841.8 million for conversions, and interest payments of £4,049.5 million were received during the year.

Premature repayments

The Commissioners are normally prepared to accept the premature redemption of loans and, according to the disposition of interest rates, either a premium is payable or a discount allowed. The premium or discount is equal to the discounted value of the difference between the future repayments on the repaid loan and the payments which would be received if the amount prematurely repaid was re-advanced at the current rate that would be charged on a new loan for a period equal to the unexpired term of the original loan.

Of the amounts of principal received during the year, £2,950 million represented loans repaid before they were due, which included £1,772.3 million prematurely repaid by authorities using additional sums to restructure their debt portfolios. Seven authorities chose to repay the entire remainder of their debt to the Board. Three authorities repaid variable rate loans prematurely, redeeming six loans totalling £5.1 million, a decrease from 1998-1999.

Premiums of £391.9 million were paid during the year and discounts of £33.6 million were allowed: these amounts are included in the total of interest received.

Option to convert loans

The options to convert either from a variable to a fixed rate loan or from a fixed to a variable rate loan require the repayment of the existing loan followed by the advance of a fresh loan. The number of fixed rate loans repaid prematurely in this way was 81 and these were replaced by 337 variable rate loans; similarly 20 variable rate loans were replaced by 33 fixed rate loans.

Of the £841.8 million converted, replacement of fixed rate loans amounted to £760.2 million and, on these, premiums of £51.9 million were paid and discounts of £22.1 million were allowed; these sums are also included in the total of interest paid given above. The replacement of variable rate loans amounted to £81.6 million and attracted premiums totalling £0.2 million; the discounts allowed amounted to £2,904. This was in contrast to 1998-99, when variable rate loans amounting to £304.5 million were converted as against fixed rate loans amounting to £32.7 million.

Payment by direct debit

322 (71.4%) of the principal authorities and 808 (57.4%) other borrowers were making their repayments by direct debit as at 31 March 2000. During the year, out of a possible 11,138 payments, 8,830 (79.3%) totalling £3,808 million (70.2%), were collected by direct debit, compared to 8,032 payments (69.6%) amounting to £3,398 million (56.8%), collected from a possible 11,533 payments in 1998-1999. These figures exclude premature repayments and conversions, which are not normally paid by direct debit.

The increased use of direct debits reflects both a concerted drive in November 1998 - June 1999 and a routine invitation to all new borrowers to make their repayments by this method.

Repayments in arrear at 31 March 2000

The amounts of the repayments due but not yet paid at the end of the financial year fluctuate from year to year, depending mainly on whether 31 March falls on a day when the banks are closed. All the overdue payments as shown in table 1 on pages 2-3 were settled in early 2000-01 other than in the following cases:-

Leisure Harbours Limited (formerly Margate Pier and Harbour Company)

The Board made a loan of £45,000 to the Margate Pier and Harbour Company in 1955 after the harbour was damaged by storms in 1954-55. Repayments were made regularly until 1965 when the Company began to encounter growing financial difficulties. A serious fire in 1964 and cessation of a regular shipping service in 1966 severely curtailed the Company's income, making it impossible for it to continue repayments of principal. Interest payments continued to be made irregularly until 1971 when the Company paid all outstanding interest due up to 31 December 1970. In 1971 the harbour was again damaged by storms and no more payments were made until 1977 when arrears of interest were again cleared. Finally, in 1978 storms totally destroyed the pleasure pier and effectively all repayments ceased.

In 1983 the statutory Harbour Company was bought by a private company. The new owner recognised the obligation of the Company and negotiated a new agreement with the Commissioners which incorporated all the outstanding moneys into a single loan of £45,817, in the expectation that full repayment would be made once planning permission had been granted for development of the harbour. Some further repayments were made but, in the absence of progress on a planning agreement, ceased in 1989. In 1993 the statutory Harbour Company was wound up under a Harbour Revision Order and reformed as a private company.

In 1999 the harbour was compulsorily purchased by Thanet District Council, and in February 2000 a Lands Tribunal valued compensation for the property at £150,000. It was arranged that Thanet would pay the compensation direct to the Board, which on 31 March 2000 received the sum of £155,446.85. This included interest between the date Thanet took possession, April 1999, and the date when the compensation was paid.

The outstanding debt at 31 March 2000 was £165,338.12, including capitalised and accrued interest. The Board, in the light of the circumstances and with the benefit of legal advice, concluded that there was no prospect of recovering any further money and, accordingly, accrued interest amounting to £9,891.27 was waived, thus bringing an end to this long-standing matter.

Parish councils

Two parish councils encountered difficulties in meeting their loan repayments. In one case the council failed to receive a significant portion of income expected during the year. The council approached the Board about its difficulty and the Commissioners agreed to defer repayment for a year, after which time the interest accrued would be capitalised and treated as a second loan.

In the second instance the difficulty arose out of alleged misappropriation of funds by the clerk of a number of parishes. This matter is subject to a police investigation and legal proceedings, which will necessarily influence the outcome. In the meantime one parish is not meeting its repayment obligation on loans with outstanding balances totalling some £61,000.

Amalgamation of Repayment Dates

The Board offers the facility whereby an authority with a large number of interest repayment dates, often inherited as a result of various local government reorganisations, may combine these dates into one or more sets, thus rationalising its debt portfolio and creating opportunities for administrative savings. Two authorities took advantage of the scheme during 1999-2000.

Loan Account Combinations

The Board offers local authorities the opportunity of combining some of their loan accounts. Many authorities have a large number of small loan accounts which have the same method of repayment, rate of interest and date of final payment and which can be amalgamated to the benefit of both the authorities and the Board. During the year one authority took advantage of the scheme.

Fees

The scales of fees are determined by HM Treasury, after consulting the Commissioners, to cover the cost of examining applications for loans, making advances and maintaining accounts throughout the terms of the loans. An annual review is carried out to decide whether the scales should be amended. The basic fees, which have been in force since 1991, remained unchanged.

For loans to local authorities the scale of fees was therefore as follows:-

Fixed rate loans - 35 pence for every £1,000 or part of £1,000

Variable rate loans - 45 pence for every £1,000 or part of £1,000

Minimum fee - £25.

The option to replace a fixed rate with a variable rate loan, or a variable rate with a fixed rate loan, has a fee of £70.

Year 2000 Conformity

The Board made thorough-going plans to ensure its systems were Year 2000 compliant, and in the event no difficulties were experienced.

Euro

Together with all other Government departments, the Public Works Loan Board is developing plans for changing to the Euro, so as to be able to move forward in the event of a decision to join the single currency.

Modernising Government

The Board is developing plans in line with the Government's modernisation agenda. A website is to be opened during the course of 2000-01 at the web address www.pwlb.gov.uk.

Administration

The Board's administrative costs are a charge on the Parliamentary Vote for the National Investment and Loans Office, of which the Board forms a part. Expenditure by the Board in 1999-2000 was £0.8 million.

Fee income amounted to £2.2 million. Part of the income notionally covers the future cost of maintaining loans but, for the purposes of Government accounting, the

whole of the cash surplus, which in 1999-2000 amounted to £1.4 million, is surrendered to the Consolidated Fund.

At 31 March 2000 the number of staff employed by the Board was 13. The reduction in the number of staff from last year's figure of 17 was due to the closure of a separate data input section.

In March 2000 the Board moved its offices from the Government Offices in Great George St/King Charles Street, London SW1, to the 3rd floor, Allington Towers, 19 Allington Street, London SW1. The Board will remain at Allington Towers for at least two years while the Great George Street complex is being refurbished. Meanwhile the Board's King Charles Street address is being retained for postal purposes.

Appendices

Appendix A - summarises the Board's operations from 1817-18 onwards.

Appendix B - lists the Board's circulars in force during 1999-2000.

Appendix C - lists the tables in this Report.

By order of the Board

I H PEATTIE

Secretary

PUBLIC WORKS LOAN BOARD
National Investment and Loans Office
1 King Charles Street
LONDON
SW1A 2AP
3 July 2000

Table 14: Appendix A

<i>Historical Summary of Lending</i>								
<i>Year</i>	<i>Loans advanced in year</i>	<i>Principal outstanding at end of year</i>	<i>Repayments received in year</i>		<i>Average rate of interest</i>		<i>Total longer term debt of local authorities to PWLB and all other lenders at end of year (a)</i>	<i>Debt to PWLB as a proportion of total local authority longer term loan debt</i>
			<i>Principal</i>	<i>Interest</i>	<i>on new advances</i>	<i>on outstanding loans</i>		
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>%</i>	<i>%</i>	<i>£ million</i>	<i>%</i>
1817-18	0.3	0.3	-	-	*	*	*	*
1827-28	0.6	2.1	0.3	0.1	*	3 1/8	*	*
1837-38	0.4	2.9	0.3	0.1	*	2 5/8	*	*
1847-48	0.6	4.1	0.2	0.1	*	2 1/2	*	*
1857-58	0.4	4.0	0.2	0.1	*	3 1/8	*	*
1867-68	0.8	7.3	0.4	0.2	*	3 1/2	*	*
1877-78	4.3	20.6	0.6	0.6	3 1/4	3 1/4	*	*
1887-88	1.2	28.2	1.7	1.0	3 5/8	3 5/8	*	*
1897-98	1.3	23.0	1.0	1.0	2 7/8	3 1/2	*	*
1907-08	2.1	49.5	2.4	1.6	3 5/8	3 1/4	*	*
1917-18	0.3	42.2	2.9	1.8	4 5/8	3 3/8	*	*
1927-28	39.7	239.0	5.6	11.3	5	5 1/4	*	*
1937-38	22.5	309.3	11.5	14.9	3 1/2	5	*	*
1947-48	246.1	626.8	13.3	16.9	3	3 7/8	*	*
1957-58	116.5	3,217.9	85.1	123.8	6	3 3/4	5,647.5	57.0
1967-68	465.7	4,634.9	112.5	197.9	7	4 3/4	12,743.1	36.4
1977-78	2,272.7	12,941.0	1,239.6	1,174.8	10 1/8	9 3/8	34,264.0	37.8
1987-88	6,346.2	39,356.5	2,243.4	3,675.4	9	9 7/8	56,616.6	69.5
1990-91	3,654.1	48,077.4	2,138.1	4,416.1	12	9 3/4	60,245.0	79.8
1991-92	4,170.8	48,729.4	3,518.8	4,811.4	10 1/2	9 3/4	58,595.1	83.2
1992-93	6,039.2	41,455.7	13,312.9	4,248.0	8 5/8	9 1/2	55,390.0	74.8
1993-94	4,268.5	40,817.6	4,906.6	3,871.5	7 1/4	9 3/8	59,606.0	68.5
1994-95	5,564.5	40,401.8	5,980.3	3,664.0	7 1/8	9 1/8	59,798.8	67.5
1995-96	6,978.5	40,888.7	6,491.6	3,561.4	7 1/8	9	62,162.7	65.8
1996-97	6,575.4	42,086.6	5,377.6	3,741.1	7 1/4	8 7/8	64,744.5	65.0
1997-98	6,394.4	42,917.2	5,563.8	4,081.2	6 3/4	8 3/4	66,112.2	64.9
1998-99	6,144.1	44,718.5	4,342.8	3,949.2	5	8 1/4	68,365.5	65.4
1999-00	6,971.1	46,043.4	5,628.9	4,048.1	4 5/8	7 3/4	68,846.2	66.9

Notes:

(a) Based on information supplied with loan applications, together with figures published in Financial Statistics.

* Not available

Appendix B

Circulars in force during 1999-2000

No. 118	25 March 1999	Arrangements for lending to local authorities from 1 April 1999
No. 119	22 February 2000	National Loans Fund Lending Rates

Appendix C

Tables in this Report

Table

- 1** Statement of transactions and balances outstanding
- 2** Monthly total of advances, broken down between fixed and variable rates of interest
- 3** Base lending rate and the three months variable rate: line graph
- 4** Fixed 'Lower' rate: line graph
- 5** Monthly advances: bar graph
- 6** Analysis of lending
- 7** Advances at 'Lower' and 'Higher' rates of interest
- 8** New advances: pie graph
- 9** Average rate (%), 1995/96 - 1999/2000: bar graph
- 10** Average period (years): bar graph
- 11** Type of borrower (by category of authority)
- 12** Rates of interest and periods for repayment
- 13** Method and period for repayment
- 14** Historical summary