



Public Works Loan Board

*128th Annual Report
2002-2003*

*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 there is sufficient security for its repayment.

Moneys are provided by Act of Parliament 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	Mr Anthony LOEHNIS, CMG Director, St James's Place Capital plc Former Director, SG Warburg Group plc Former Executive Director, Bank of England	2006
	<i>Deputy Chairman</i>	
1996	Mr John PARKES, CBE, DL Former Chief Executive, Humberside County Council President, Society of County Treasurers 1987-88	2004
1996	Mrs Rita HALE Director, Rita Hale & Associates Limited Former Head of Local Government Division, CIPFA	2004
1997	Mr Brian TANNER, CBE, DL Chairman, Taunton & Somerset NHS Trust Former Chief Executive, Somerset County Council President, Society of County Treasurers 1989-90	2005
1997	Mrs Rachel TERRY Associate, HACAS Exchequer Services Limited Former Partner, Touche Ross & Company	2003
1998	Mr William MIDGLEY Former President, North East Chamber of Commerce Former Chief Executive, Newcastle Building Society Vice Chair, North East Regional Assembly	2006
1998	Mr Lawrence NIPPERS Former Director of Finance and Central Services, Newport County Borough Council	2003
2000	Mrs Sarah WOOD Director of Finance, Birmingham City Council	2004
2001	Miss Mei Sim LAI Partner, Pridie Brewster	2005
2001	Mr Gordon EDWARDS Corporate Director of Finance and ICT, Aberdeen City Council	2005
2002	Mrs Philippa FOSTER BACK Director, Institute of Business Ethics	2006
2002	Mrs Anita FREW Non-executive director, NXT plc	2003

Senior Officials of the Board were:

Secretary
Mr Hamish WATSON

Assistant Secretary
Mr Mark FRANKEL

Annual Report

2002-03

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 2003¹.

Membership of the Board

By virtue of the Public Works Loans Act 1946 and the Royal Warrants of appointment, the terms of office of Mr Anthony Loehnis and Mr William Midgley expired on 31 March 2002. By Royal Warrant, Mr Loehnis was reappointed for a further term as Commissioner and Chairman, Mr Midgley was reappointed for a further term as a Commissioner and Mrs Philippa Foster Back was appointed a Commissioner to fill the vacancy left by the retirement of Miss Vera Di Palma. By a separate Warrant, Mr John Parkes was appointed deputy chairman in succession to Miss Di Palma and Mrs Anita Frew was appointed a Commissioner with effect from 31 March 2002 to replace Mr David Arculus for the remainder of his term of office. Mrs Frew and Mrs Rita Hale resigned at the end of March 2003.

Statutory provision for loans

The loans advanced by the Board are 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 2003, the balance of principal outstanding from borrowers, together with loans committed but not yet advanced, was £44.6 billion (£44,589,264,176).

Summary of transactions

A statement which shows advances made, repayments of principal and interest received during the year and balances outstanding, analysed according to types of borrower in England, Wales and Scotland, appears on pages 2-3 (Table 1). Loans amounting to £5.1 billion (£5,099,203,639) were made in 2002-03. Appendix A (Table 14) on page 18 gives a historical summary of the Board's lending.

¹ For references to last year's activities, see Public Works Loan Board: 127th Annual Report 2001-02 (The Stationery Office, 2002; ISBN 0-11-560102-3)

Table 1: Summary of transactions

	<i>In the Year 2002-2003</i>		
	<i>Advances</i>	<i>Repayments of principal</i>	<i>Interest received</i>
	£	£	£
Loans on local revenues to:			
Local Authorities in England:			
County Councils	1,205,715,389	556,025,753	440,631,946
London Borough Councils	391,453,827	875,247,162	793,537,564
Metropolitan District Councils (a)	1,343,953,034	2,299,596,195	1,011,080,877
Non-Metropolitan District Councils	969,306,096	1,356,371,649	568,492,178
Parish and Town Councils	7,671,324	3,922,440	4,222,847
Others	178,792,993	143,921,131	108,599,063
	<u>4,096,892,663</u>	<u>5,235,084,330</u>	<u>2,926,564,475</u>
Local Authorities in Wales:			
Principal Councils	440,438,256	419,457,210	240,589,521
Community Councils	20,000	128,823	113,740
Others	7,933,605	4,032,841	2,605,479
	<u>448,391,861</u>	<u>423,618,874</u>	<u>243,308,740</u>
Local Authorities in Scotland:			
Principal Councils	551,171,115	1,891,491,063	926,937,945
Others	2,598,000	4,593,452	37,027,029
	<u>553,769,115</u>	<u>1,896,084,515</u>	<u>963,964,974</u>
Total loans on local revenues	<u>5,099,053,639</u>	<u>7,554,787,719</u>	<u>4,133,838,189</u>
Loans on property to Harbour Authorities:			
England	150,000	22,570	6,589
Wales	0	0	0
Scotland	0	258,230	1,044,514
Total loans on property to Harbour Authorities	<u>150,000</u>	<u>280,800</u>	<u>1,051,103</u>
Total loans on local revenues and on property	<u>5,099,203,639</u>	<u>7,555,068,519</u>	<u>4,134,889,292</u>
Add totals from 1817:			
To 31 March 2002	151,604,037,979	104,500,903,983	85,788,986,086
Principal remitted or extinguished:			
To 31 March 2002		58,004,941 (c)	
In the year 2002-03		0	
Total at 31 March 2003	<u>156,703,241,618</u>	<u>112,113,977,443</u>	<u>89,923,875,378</u>


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

(b) See page 15 - Repayments in arrear at 31 March 2003

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

(d) Total balance outstanding

and balances outstanding

<i>Balances outstanding at 31 March 2003</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	6,479,628,956	0	Loans on local revenues to:
0	8,646,534,839	0	Local Authorities in England:
0	10,602,535,883	0	County Councils
0	6,205,757,027	0	London Borough Councils
8,203	60,009,820	7,933	Metropolitan District Councils (a)
57	1,384,266,150	189,889	Non-Metropolitan District Councils
			Parish and Town Councils
			Others
8,260	33,378,732,677	197,822	
0	3,253,542,667	0	Local Authorities in Wales:
798	1,493,148	334	Principal Councils
0	39,413,832	65	Community Councils
			Others
798	3,294,449,647	399	
0	7,523,004,308	0	Local Authorities in Scotland:
0	379,648,440	0	Principal Councils
			Others
0	7,902,652,748	0	
9,058	44,575,835,071	198,221	Total loans on local revenues
0	149,743	0	Loans on property to Harbour Authorities:
0	0	0	England
0	13,270,304	0	Wales
			Scotland
0	13,420,046	0	Total loans on property to Harbour Authorities
9,058	44,589,255,118	198,221	(b) Total loans on local revenues and on property
			Add totals from 1817:
			To 31 March 2002
			Principal remitted or extinguished:
			To 31 March 2002
			In the year 2002-03
9,058	44,589,255,118	198,221	Total at 31 March 2003
			
44,589,264,176 (d)			

Loans in respect of 2001-02

Details of loans advanced in 2001-02 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 any undrawn quota. 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. 2001-02 quotas carried forward and drawn in 2002-03 amounted to £208.6 million (£208,613,029) and over-issues made during 2001-02, which were deductible from 2002-03 quotas, amounted to £42.3 million (£42,292,854). After adjustments, the loans issued in respect of 2001-02 amounted to £4.4 billion (£4,390,193,536).

General Review of 2002-03

Determination of quotas

After consulting HM Treasury, the Department for Transport, Local Government & the Regions (now the Office for the Deputy Prime Minister) and the devolved administrations, the Commissioners decided that the quota arrangements for 2002-03 should be the same as those for 2001-02, 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 to apply their set-aside provisions to meeting their credit liabilities, in line with Government intentions.

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

for authorities in England and Wales,

- basic and supplementary credit approvals used in 2002-03
- plus
- repayments of principal due in 2002-03 on loans from the Board;

for authorities in Scotland,

- capital consent allocations used in 2002-03
- plus
- repayments of principal due in 2002-03 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 2002 (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 2002.

Lending facilities

Lending policy remained largely unchanged from the previous year. Circular 127, which was issued in March 2002 and set out the lending arrangements for the year, confirmed the simplified arrangements for refinancing loans that had been introduced in December 2001.

The Commissioners continued to monitor the development of the proposed new system of local government finance which is expected to be introduced with effect from April 2004.

Administrative and operational changes

As foreshadowed in the Board's report for 2001-02 and following a review by HM Treasury of organisational arrangements for Government debt and asset management, the Board became part of the United Kingdom Debt Management Office (DMO) on 1 July 2002, when Mr Ian Peattie retired as Secretary to the Board and staff relocated to the DMO's offices in the City of London. Mr Hamish Watson, a senior manager in the DMO, succeeded Mr Peattie as Secretary. Mr Mark Frankel continued as Assistant Secretary to the Board, and Mr Antony Dinnage as Manager of Loans Branch.

The Board retains its statutory identity and functions but the merger with the DMO prompted operational changes to take advantage of consequential synergies. One such change was that, from 3 March 2003, the Board's fixed interest rates, which had previously normally been set weekly, were henceforth set daily, with the current rates being published on the Board's website at the start of each business day². HM Treasury retained the right to make intra-day changes. At the same time the opportunity was taken for rates to be expressed in decimals, in line with market practice.

Applications for loans

During the year 825 applications for loans totalling £3.2 billion (£3,164,167,707) were considered and all were approved in full.

Applications for advances were received from 351 local authorities, including 207 non-principal authorities. Out of a total of 443 principal authorities 299 did not apply to the Board during the year. 125 principal authorities had no debt outstanding to the Board as at 31 March 2003.

Nine authorities submitted ten applications for special consideration, of which six were approved in full. The marked decline from the 59 cases in 2001-02 was due largely to the ending of the need, with effect from 6 December 2001, for authorities to seek the specific consent of the Commissioners to additional quota for restructuring portfolios of debt from the Board.

Of the ten applications:

- one was in order to take advantage of low rates;
- two were to repay market debt prematurely;
- five were to refinance long-term market debt on maturity;
- one was to replace short-term market loans;
- one was for additional financing in light of the decision by the Commissioners for the Reduction of the National Debt (CRND) to discontinue short-term loans to local authorities. This decision was taken after CRND reconsidered their investment needs in light of the returns they could make for funds they manage.

Two applications were refused, because they did not conform to the Commissioners' policy. The Commissioners found it necessary to reduce amounts requested on two occasions due to the overstatement of figures by the respective authorities.

² www.pwlb.gov.uk

Advances to parishes and community councils, which amounted to £7.7million (£7,691,324), are in respect of particular projects. Parochial projects supported during the year included the refurbishment of council offices and the development of playgrounds. There were three advances to drainage boards in the year, amounting to £450,000. One advance amounting to £150,000 was made to a Harbour Authority.

Refinancing of fixed rate loans

The Commissioners continued to make available sums in addition to the quota for refinancing loans from the Board in accordance with the scheme introduced in December 2001. During the year the Board made advances totalling £631.3 million (£631,302,798) under these arrangements.

Incidence of drawings

The timing of loan applications was, as usual, closely related to authorities' perception of current and future interest rate movements.

The monthly totals of drawings are listed below in Table 2. The relationship between rates of interest and the incidence of advances can be derived from Tables 3-5 on pages 7-8.

Table 2: Monthly totals of advances

	<i>£ million</i>					
	<i>Fixed rate</i>		<i>Variable rate</i>		<i>2002-03 Total</i>	<i>2001-02 Total</i>
	<i>New</i>	<i>Converted and refinanced</i>	<i>New</i>	<i>Converted from fixed</i>		
April	7.0	0.7	0.0	401.3	409.0	183.9
May	12.2	0.0	42.1	61.2	115.5	242.4
June	19.1	14.0	7.5	240.0	280.6	53.0
July	311.3	9.1	34.6	27.2	382.2	315.8
August	807.8	181.2	5.0	0.0	994.0	1,057.1
September	400.2	40.2	0.0	5.0	445.4	338.3
October	200.9	135.8	23.0	48.9	408.6	285.6
November	121.2	115.0	6.0	12.5	254.7	819.5
December	72.5	12.3	0.0	117.8	202.6	222.3
January	88.8	8.5	0.0	5.0	102.3	244.9
February	565.1	41.2	2.0	4.2	612.5	139.6
March	364.3	114.4	73.6	339.5	891.8	539.9
	2,970.4	672.4	193.8	1,262.6	5,099.2	4,442.3

Table 3: Bank of England Repo rate and the three-month variable rates³

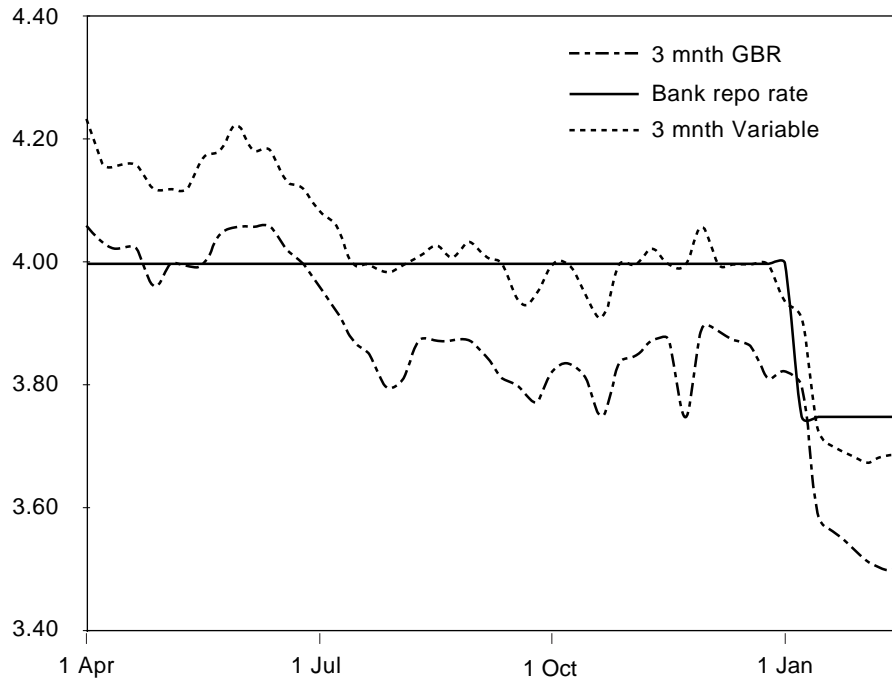
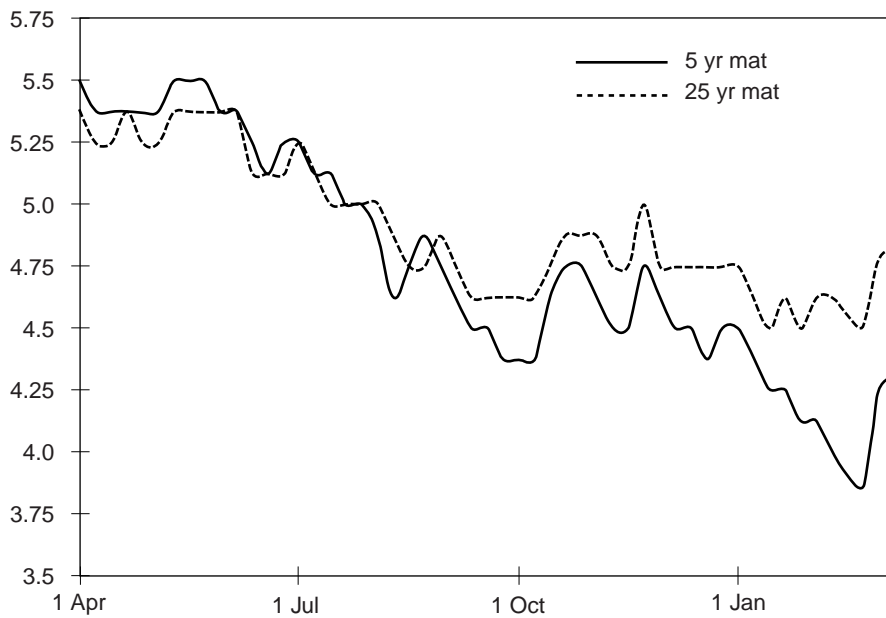
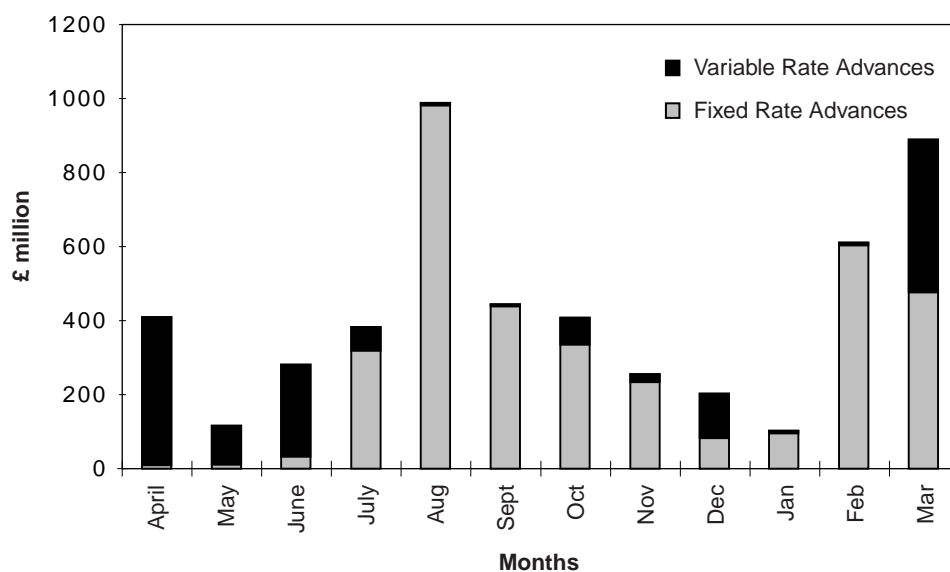


Table 4: Fixed 'Lower' Rate



³For explanation of rates of interest, see page 14

Table 5: Monthly Advances



Repayment periods

There was greater preference in the year, as against 2001-02, for shorter term loans. During the year, loans amounting to 36% of the total were taken for periods up to five years, while 55% were taken for maturities of over 15 years. This was in contrast to 2001-02, when the proportions were 26% and 68% respectively.

In the last quarter of the year, a gap opened between 5-year and 25-year rates (see Table 4) and lending slightly shifted towards the short end, so that, while in the third quarter of the year 36% of total advances were taken for periods up to five years, in the fourth quarter the proportion was 42%.

Non-quota A and Non-quota B loans

The Board, as lender of last resort to local government, customarily publicises the availability of non-quota loans at special 'A' and 'B' sets of rates. There have, however, been no applications for advances at either set of rates since the 1970s.

Transfers of Housing

As is clear from Table 6 (below), 2002-03 was the second year in succession when the Board was a net receiver. An important contributory factor this year was large-scale transfers of council housing that generated substantial early repayments. During the year, the Board received early repayments of principal totalling £1.4 billion (£1,382,338,870) following transfers of housing by Bradford City Council, Carlisle City Council, City of Glasgow Council, Knowsley Borough Council, Scottish Borders Council and St. Helens Borough Council.

Service performance

The Board sets itself performance targets for advancing loans and arranging premature repayments. Applications are processed according to the timetable set out in the Board's circulars and advances are normally made within 48 hours. During the year there was a 100% success rate in meeting these targets.

Loans made in 2002-03

Gross advances, at £5.1 billion, (£5,099,203,639), were up by 15% from 2001-02, 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, including loans to non-principal authorities and loans against quota carried forward from 2001-02, was £3.1 billion (£3,131,754,976). Tables 6 and 7 below show the gross and net lending for the year and the amounts advanced at the Lower and Higher rates of interest.

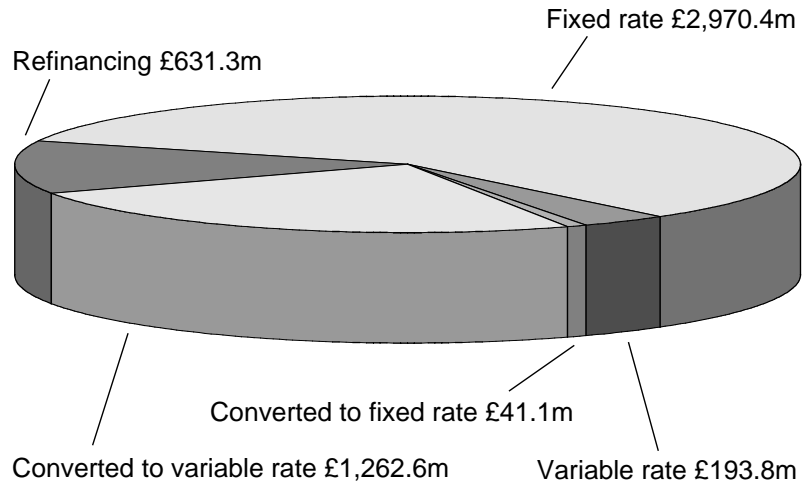
Table 6: Analysis of transactions

	<i>£ million</i>			
	<i>Gross advances</i>	<i>Principal repayments</i>	<i>2002-03 Net lending</i>	<i>2001-02 Net lending</i>
Quota loans (see page 4)	3,132	2,085	1,047	1,217
Loans in addition to quotas (see page 5)	32	-	32	775
Conversions (see page 15)	1,304	1,304	-	-
Premature payments (see page 14)	-	3,535	(3,535)	(2,116)
Refinancing of loans (see page 6)	631	631	-	-
	<u>5,099</u>	<u>7,555</u>	<u>(2,456)</u>	<u>(124)</u>

Table 7: Advances at Lower and Higher rates of interest

	<i>£ million</i>		<i>2002-03 Total</i>
	<i>Lower</i>	<i>Higher</i>	
Quota loans	2,551	364	2,915
Quota loans carried over from 2001-02	189	20	209
Loans in addition to quota	32	-	32
Parishes and Community councils	8	-	8
Conversions	920	384	1,304
Refinancing of loans	598	33	631
	<u>4,298</u>	<u>801</u>	<u>5,099</u>

Table 8: Advances and conversions



As in previous years fixed rate loans accounted for most of the advances.

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

Table 9: Average rate (%)

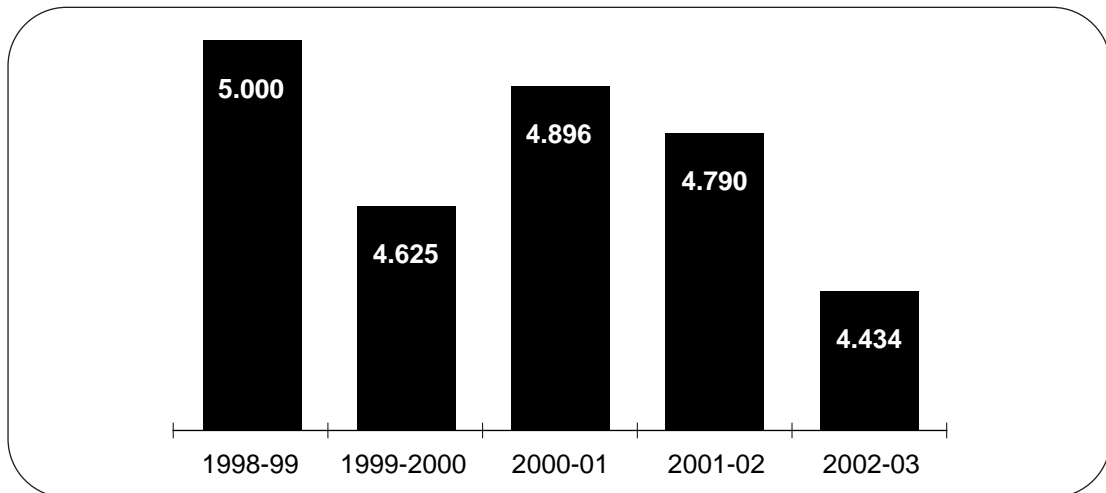
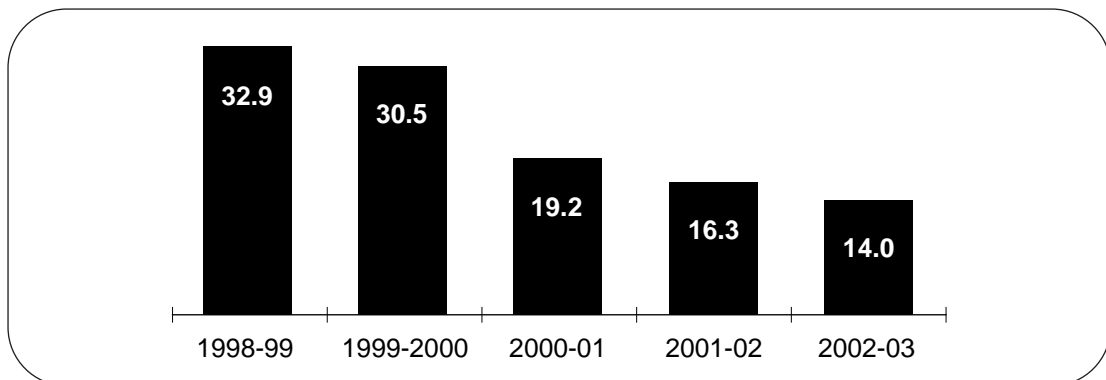


Table 10: Average period (years)



The average rate payable on variable rate loans outstanding at 31 March 2003 was 3.797%.

Table 11: Type of borrower

	<i>Fixed rate</i>		<i>£ million</i> <i>Variable rate</i>		<i>Totals</i>	
	<i>New</i>	<i>Converted and Refinanced</i>	<i>New</i>	<i>Converted from Fixed</i>	<i>2002-03</i>	<i>2001-02</i>
Local authorities in England						
County Councils	984.8	155.4	39.0	26.5	1,205.7	823.7
London Borough Councils	95.7	102.0	6.0	187.7	391.4	288.7
Metropolitan District Councils (a)	726.6	99.4	42.0	476.0	1,344.0	1,032.8
Non-Metropolitan District Councils	513.8	124.5	72.6	258.4	969.3	885.2
Parish Councils	7.7	-	-	-	7.7	8.2
Others	134.8	16.7	12.3	15.1	178.9	159.9
	<u>2,463.4</u>	<u>498.0</u>	<u>171.9</u>	<u>963.7</u>	<u>4,097.0</u> (80%)	<u>3,198.5</u> (72%)
Local authorities in Wales						
Principal Councils	262.6	28.4	19.6	129.9	440.5	358.2
Community Councils	-	-	-	-	-	0.1
Others	7.9	-	-	-	7.9	4.7
	<u>270.5</u>	<u>28.4</u>	<u>19.6</u>	<u>129.9</u>	<u>448.4</u> (9%)	<u>363.0</u> (8%)
Local authorities in Scotland						
Principal Councils	234.2	146.0	2.0	169.0	551.2	877.9
Others	2.3	-	0.3	-	2.6	2.9
	<u>236.5</u>	<u>146.0</u>	<u>2.3</u>	<u>169.0</u>	<u>553.8</u> (11%)	<u>880.8</u> (20%)
Total	<u>2,970.4</u>	<u>672.4</u>	<u>193.8</u>	<u>1,262.6</u>	<u>5,099.2</u>	<u>4,442.3</u>

(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>Total</i>
		<i>Up to 5 years</i>	<i>Over 5 but not over 10 years</i>	<i>Over 10 but not over 15 years</i>	<i>Over 15 but not over 25 years</i>	<i>Over 25 years</i>	<i>2002-03</i>
Fixed rate loans							
Rate of interest							
per annum							
	3.250	42.0	-	-	-	-	42.0
	3.300	31.2	-	-	-	-	31.2
	3.350	5.3	-	-	-	-	5.3
	3.375	21.5	-	-	-	-	21.5
	3.450	18.8	-	-	-	-	18.8
	3.500	36.3	-	-	-	-	36.3
	3.600	16.7	-	-	-	-	16.7
	3.625	3.3	-	-	-	-	3.3
	3.650	3.5	-	-	-	-	3.5
	3.750	34.4	-	-	-	-	34.4
	3.800	12.0	-	-	-	-	12.0
	3.850	10.0	0.2	-	-	-	10.2
	3.875	62.5	-	-	-	-	62.5
	3.900	2.4	-	-	-	-	2.4
	3.950	3.0	-	-	-	-	3.0
	4.000	11.3	2.6	-	-	-	13.9
	4.100	2.5	-	-	-	-	2.5
	4.125	25.2	0.9	-	-	-	26.1
	4.250	7.8	25.4	-	-	-	33.2
	4.300	5.0	-	-	-	-	5.0
	4.350	-	2.6	-	-	-	2.6
	4.375	23.1	42.4	-	16.0	-	81.5
	4.400	-	4.0	5.0	0.5	-	9.5
	4.450	-	0.7	-	20.0	-	20.7
	4.500	58.4	13.0	49.8	412.7	-	533.9
	4.550	-	0.8	3.5	55.5	-	59.8
	4.600	-	4.1	-	7.0	-	11.1
	4.625	16.9	22.1	8.6	699.4	-	747.0
	4.650	-	4.5	3.3	19.7	-	27.5
	4.700	-	4.0	-	14.7	-	18.7
	4.750	21.0	67.2	15.9	956.7	-	1,060.8
	4.800	-	-	2.3	5.2	-	7.5
	4.850	-	-	-	10.1	-	10.1
	4.875	0.8	17.3	20.6	204.6	-	243.3
	4.900	-	-	5.0	0.7	-	5.7
	5.000	0.6	-	2.8	221.0	-	224.4
	5.125	2.5	0.1	-	145.4	-	148.0
	5.250	-	15.2	5.0	14.6	-	34.8
	5.375	-	0.1	-	9.0	-	9.1
	5.500	-	0.8	0.7	1.5	-	3.0
		478.0	228.0	122.5	2,814.3	-	3,642.8

Table 13: Method and period for repayment

<i>Method of repayment</i>	<i>£ million</i>					<i>Totals</i>	
	<i>Up to 5 years</i>	<i>Over 5 but not over 10 years</i>	<i>Over 10 but not over 15 years</i>	<i>Over 15 but not over 25 years</i>	<i>Over 25 years</i>	<i>2002-03</i>	<i>2001-02</i>
Fixed rate loans							
new loans -							
Maturity	352.7	163.3	106.2	2,182.0	-	2,804.2	3,119.4
Annuity	2.5	6.7	10.7	21.0	-	40.9	33.0
Equal instalments of principal	16.3	14.0	0.9	94.1	-	125.3	100.4
	<u>371.5</u>	<u>184.0</u>	<u>117.8</u>	<u>2,297.1</u>	<u>-</u>	<u>2,970.4 (58%)</u>	<u>325.8 (73%)</u>
Fixed rate loans							
converted loans -							
Maturity	99.0	42.3	4.7	517.2	-	663.2	92.1
Annuity	-	-	-	-	-	-	-
Equal instalments of principal	7.5	1.7	-	-	-	9.2	-
	<u>106.5</u>	<u>44.0</u>	<u>4.7</u>	<u>517.2</u>	<u>-</u>	<u>672.4 (13%)</u>	<u>92.1 (2%)</u>
Variable rate loans							
new loans -							
Maturity	170.3	11.5	-	-	-	181.8	129.9
Equal instalments of principal	-	12.0	-	-	-	12.0	-
	<u>170.3</u>	<u>23.5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193.8 (4%)</u>	<u>129.9 (3%)</u>
Variable rate loans							
converted loans -							
Maturity	1,148.1	80.3	-	-	-	1,228.4	967.5
Equal instalments of principal	34.2	-	-	-	-	34.2	-
	<u>1,182.3</u>	<u>80.3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,262.6 (25%)</u>	<u>967.5 (22%)</u>
All loans							
Maturity	1,770.1	297.4	110.9	2,699.2	-	4,877.6 (96%)	4,308.9 (97%)
Annuity	2.5	6.7	10.7	21.0	-	40.9 (1%)	33.0 (1%)
Equal instalments of principal	58.0	27.7	0.9	94.1	-	180.7 (3%)	100.4 (2%)
	<u>1,830.6</u>	<u>331.8</u>	<u>122.5</u>	<u>2,814.3</u>	<u>0.0</u>	<u>5,099.2</u>	<u>4,442.3</u>

The number of new loan accounts opened during the year was 1,107. At 31 March 2003 the total number of open accounts was 24,939. The number of premature repayments in the year was 2,746.

Rates of interest

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.

Until 3 March 2003, fixed rates of interest were normally determined weekly, to take effect from the start of business on a Tuesday. On five occasions during the year additional changes were made on other days, following significant movement in the gilt yield curve. As explained on page 5, from 3 March 2003 fixed rates have been set daily. Since this date no intra-day change to the rates has been made.

Since 3 October 2000, the rates for new variable rate loans, both Lower and Higher quota, have been determined daily by reference to a formula based on gilt general collateral repo rates. For variable rate loans in existence before 3 October 2000 the rates of interest continued to be determined by reference to formulae based on the cost of Government borrowing.

Current and past rates of interest are displayed on the Board's website⁴.

Repayments

Repayments of principal amounting to £7.6 billion (£7,555,068,519), including £1.3 billion (£1,303,733,146) for conversions, and interest payments of £4.1 billion (£4,134,889,292) were received during the year.

Premature repayments

The Commissioners are normally prepared to accept the premature redemption of loans. 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 otherwise due on the repaid loan and the payments which would be received if the balance prematurely repaid were re-advanced at the current rate payable 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, £4.2 billion (£4,165,987,456),

- £3.4 billion (£3,387,418,748) represented 2,713 fixed rate loans prematurely repaid by 169 authorities
- £0.6 billion (£631,302,798) represented 179 loans prematurely repaid by 33 authorities using additional sums to restructure their debt portfolios, resulting in 54 new loans
- £0.1 billion (£147,265,910) represented 33 variable rate loans repaid prematurely by 10 authorities

In the year 16 authorities became debt free making a total of 125 authorities with no debt to the Board.

Premiums of £601.9 million (£601,868,260) were received during the year, and discounts of £45.3 million (£45,344,181) were allowed; these amounts are included in reported totals of interest.

⁴www.pwlb.gov.uk

Option to convert loans

The option to convert a variable to a fixed rate loan or vice versa involves the repayment of the existing loan and the advance of a fresh one. 79 authorities took advantage of the option to convert 433 fixed rate loans into 161 variable rate loans. Five authorities converted 7 variable rate loans into 6 fixed rate loans.

Replacement of fixed rate loans amounted to £1.3 billion (£1,262,588,980). On these, premiums of £55.8 million (£55,806,395) were paid and discounts of £53.0 million (£52,999,498) allowed; these sums are included in totals of reported interest. The replacement of variable rate loans amounted to £41.1 million (£41,144,166) and attracted premiums totalling £1,292; the discounts amounted to £252,822.

Payment by direct debit

The Board encourages borrowers to use direct debit which is a simple and cost effective way to make scheduled repayments punctually. 83% of the principal authorities and 71% of other borrowers were making their repayments by direct debit as at 31 March 2003.

Repayments in arrears

The amounts of 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 banking day (which it did in 2003). All the overdue payments as shown in Table 1 on pages 2-3 were settled early in 2003-04.

Amalgamation of Repayment Dates; Loan Account Combinations

The Board offers the facility whereby an authority with a large number of interest repayment dates, often inherited as a result of successive local government reorganisations, may combine these dates into one or more sets for convenience. Where an authority has a large number of loans with the same method of repayment, rate of interest and date of final payment, the Board offers the opportunity of combining loan accounts, for convenience. One authority combined its loan accounts in 2002-03, and none sought to amalgamate repayment dates.

Transfers of Debt

The Board is prepared to accommodate the transfer of debt between authorities following local government reorganisation or for any other reason. During the year, six authorities transferred debt to ten other authorities in respect of 206 loans amounting to £345.7 million (£345,686,848).

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. The scales, which are kept under review, have remained unchanged since 1991.

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

- Fixed rate loans (both new and refinanced) - 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 fee for exercising the option to replace a fixed-rate with a variable-rate loan, or vice versa, was £70.

Freedom of Information

The Freedom of Information Act 2000 establishes a general right of access to information held by public authorities, subject to certain exemptions. It places a duty on each public authority to compile and maintain a list of information it commits to publish or otherwise proactively make available, called a Publication Scheme. Such schemes must specify the classes of information the authority publishes, the manner in which each class is published, and whether or not there is a charge.

The Board has compiled a Publication Scheme, which for convenience has been brought together with the scheme for the DMO in one document. The document also includes the scheme for the Commissioners for the Reduction of the National Debt (CRND), a separate legal entity that, like the Board, was formerly part of the National Investment and Loans Office but has, since 1 July 2002, operated under the administrative umbrella of the DMO. The document is accessible from the web sites of the three organisations⁵.

Administration

In the first quarter of 2002-03, the Board's administrative costs were a charge on the Parliamentary Vote for the National Investment and Loans Office (NILO), of which the Board then formed a part. Expenditure (including pay, non-pay administrative expenditure, and capital) was £92,003 while income from fees was £47,085.

As noted on page 5, on 1 July the Board was merged with the DMO, from which date NILO ceased to exist. Having taken responsibility for the functions of the Board, the DMO has prepared Resource Accounts for the financial year 2002-03 using the principles of merger accounting as set out in FRS6. The operating income and expenditure of the Board will, therefore, be reflected within these Accounts. Costs incurred by the DMO for 2002-03 that were directly attributable to the Board, including those noted above but excluding costs of shared overheads since 1 July, amounted to £302,000.

Fee income for the full year totalled £1,361,463. Any surplus will be surrendered to the Consolidated Fund.

At 31 March 2003 seven full-time equivalent posts were dedicated to the Board's primary functions.

⁵www.pwlb.gov.uk; www.dmo.gov.uk; www.crnd.gov.uk

Appendices

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

Appendix B - lists the Board's circulars issued during 2002-03.

Appendix C - lists the Tables in this Report

By order of the Board

H D WATSON

Secretary

PUBLIC WORKS LOAN BOARD

UK Debt Management Office

Eastcheap Court

11 Philpot Lane

LONDON

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09 June 2003

Table 14: Appendix A

Historical Summary of Lending

Year	Loans advanced in year	Principal outstanding at end of year	Repayments received in year		Average rate of interest		Total long term debt of local authorities to PWLB and all other lenders at end of year (a)	Debt to PWLB as a proportion of total local authority long term loan debt
			Principal	Interest	on new advances	on out-standing loans		
	£ million	£ million	£ million	£ million	%	%	£ million	%
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
1997-98	6,394.4	42,917.2	5,563.8	4,081.2	6 3/4	8 3/4	50,355.0	85.0
1998-99	6,144.1	44,718.5	4,342.8	3,949.2	5	8 1/4	49,652.0	90.0
1999-00	6,971.1	46,043.4	5,628.9	4,048.1	4 5/8	7 3/4	50,258.0	92.0
2000-01	6,101.2	47,169.5	5,629.3	4,049.6	4 7/8	7 1/2	50,981.0	93.0
2001-02	4,442.3	47,045.1	4,566.7	3,684.2	4 3/4	7 1/4	51,242.0	92.0
2002-03	5,099.2	44,589.3	7,555.1	4,134.9	4.434	7.036	50,935.0 †	88.0

Notes:

(a) Based on information supplied with loan applications, together with figures published in *Financial Statistics*. The data in this column for 1997-98 onwards have been revised from those reported in previous years

* Not available

† To December 2002

Appendix B

Circulars issued during 2002-03

No. 128	29 May 2002	Change of address
No. 129	4 February 2003	Changes to the frequency of publication and structure of lending rates
No. 130	13 February 2003	Arrangements for 2003-04
No. 131	27 March 2003	Arrangements for lending to local authorities from 1 April 2003

Appendix C

Tables and graphs in this Report

Table

- 1** Summary of transactions and balances outstanding
- 2** Monthly total of advances, by fixed and variable rates of interest
- 3** Bank lending rate and the three-month variable rates: line graph
- 4** Fixed Lower rates: line graph
- 5** Monthly advances: bar graph
- 6** Analysis of transactions
- 7** Advances at Lower and Higher rates of interest
- 8** New advances: pie graph
- 9** Average rate (%), 1998-99 - 2002-03: bar graph
- 10** Average period (years), 1998-99 - 2002-03: 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

