



Public Works Loan Board

126th Annual Report 2000-2001

*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	2004
1996	J. A. PARKES, CBE, DL Former Chief Executive, Humberside County Council; President, Society of County Treasurers 1987-88	2004
1996	J. ANDREWS, CBE 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; Vice Chair, North East Regional Assembly	2002
1999	L. NIPPERS Former Director of Finance and Central Services, Newport County Borough Council	2003
2000	MRS S. WOOD Director of Finance, Birmingham City Council	2004

* resigned May 2001

Annual Report 2000-2001

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 2001.

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 R. Burton, Mrs R. V. Hale and Mr J. A. Parkes expired on 1 April 2000. By Royal Warrant Mrs Hale and Mr Parkes were reappointed as Commissioners for further terms of four years and Mrs Sarah Wood was appointed as a Commissioner for a term of four years in place of Mr Burton.

The terms of Mr T. W. Fellowes and Mr J. Andrews expired on 1 April 2001. The Board places on record its thanks to them and expresses its appreciation of their valued contribution during their terms as Commissioners.

Statutory provisions 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 2001, the balance of principal outstanding from borrowers, together with loans committed but not yet advanced, was £47,169.5 million.

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 £5,325.2 million were made in 2000-01. Appendix A (table 14) on page 19 gives an historical summary of the Board's lending.

Loans in respect of 1999-2000

Details of loans advanced in 1999-2000 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. 1999-2000 quotas carried forward and drawn in 2000-01 amounted to £187.4 million and over-issues made during 1999-2000, which were deductible from 2000-01 quotas, amounted to £88.5 million. After adjustments, the loans issued in respect of 1999-2000 amounted to £6,829.6 million.

* Public Works Loan Board: *125th Annual Report 1999-2000* (The Stationery Office, 2000; ISBN 0-11-702502-X)

Table 1: Summary of transactions

	<i>In the Year 2000-2001</i>		
	<i>Advances</i>	<i>Repayments of principal</i>	<i>Interest received</i>
	£	£	£
Loans on local revenues to:			
Local Authorities in England:			
County Councils	729,298,905	442,163,344	389,012,560
London Borough Councils	593,131,142	550,000,597	761,543,159
Metropolitan District Councils (a)	1,454,029,356	1,220,269,861	977,022,470
Non-Metropolitan District Councils	1,115,381,194	1,027,865,099	569,232,520
Parish and Town Councils	7,276,965 (b)	3,042,159	3,664,102
Others	157,065,091	73,331,276	81,903,802
	4,056,182,653	3,316,672,336	2,782,378,613
Local Authorities in Wales:			
Principal Councils	468,868,867	287,343,772	208,766,090
Community Councils	224,000	129,772	114,304
Others	4,049,204	3,989,614	2,345,664
	473,142,071	291,463,158	211,226,058
Local Authorities in Scotland:			
Principal Councils	793,110,498	598,404,973	701,794,382
Others	2,755,191	6,443,707	38,690,848
	795,865,689	604,848,680	740,485,230
Total loans on local revenues	5,325,190,413	4,212,984,174	3,734,089,901
Loans on property to:			
England: Harbour Authorities	0	4,670	2,633
Wales: Harbour Authorities	0	0	0
Scotland: Harbour Authorities	0	2,979,504	1,466,948
Total loans on property	0	2,984,174	1,469,581
Total loans on local revenues and on property	5,325,190,413	4,215,968,348	3,735,559,482
Add totals from 1817:			
To 31 March 2000	141,836,481,440	95,718,180,758	78,369,209,708
Principal remitted or extinguished:			
To 31 March 2000		58,004,940 (d)	
In the year 2000-01		0	
Total at 31 March 2001	147,161,671,853	99,992,154,046	82,104,769,190

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

(b) Includes £11,385 capitalised interest

(c) See page 15 – Repayments in arrear at 31 March 2001

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

and balances outstanding

Balances outstanding at 31 March 2001

Principal		Interest	
<i>Due but not yet paid</i>	<i>Not yet due</i>	<i>Due but not yet paid</i>	
£	£	£	
8,753,373	5,581,101,684	23,736,260	Loans on local revenues to:
260,871	9,463,255,181	36,950,207	Local Authorities in England:
21,062,421	11,833,228,770	48,068,774	County Councils
28,709,130	6,638,854,098	45,894,850	London Borough Councils
90,075	51,856,857	134,175	Metropolitan District Councils (a)
3,067,887	1,242,783,589	8,708,078	Non-Metropolitan District Councils
			Parish and Town Councils
			Others
61,943,757	34,811,080,179	163,492,344	
			Local Authorities in Wales:
17,960,842	3,167,129,500	22,739,530	Principal Councils
8,290	1,573,462	2,873	Community Councils
152,843	33,361,185	120,627	Others
18,121,975	3,202,064,147	22,863,030	
			Local Authorities in Scotland:
2,336,015	8,676,010,003	21,599,714	Principal Councils
0	384,171,243	51,389	Others
2,336,015	9,060,181,246	21,651,103	
82,401,747	47,073,325,572	208,006,477	Total loans on local revenues
			Loans on property to:
0	27,267	0	England: Harbour Authorities
0	0	0	Wales: Harbour Authorities
0	13,763,221	0	Scotland: Harbour Authorities
0	13,790,488	0	Total loans on property
82,401,747	47,087,116,060	208,006,477	(c) Total loans on local revenues and on property
			Add totals from 1817:
			To 31 March 2000
			Principal remitted or extinguished:
			To 31 March 2000
			In the year 2000-01
82,401,747	47,087,116,060	208,006,477	Total at 31 March 2001
47,169,517,807			

General Review of 2000-01

Determination of quotas

After consulting HM Treasury, the Department for the Environment, Transport and the Regions and the devolved administrations, the Commissioners decided that the quota arrangements for 2000-01 should be the same as those for 1999-2000, 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, in line with Government intentions, to encourage authorities 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 2000-01

and

Repayments of principal due in 2000-01 on loans from the Board;

for authorities in Scotland,

the sum of:

Capital Consent Allocations used in 2000-01

and

Repayments of principal due in 2000-01 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 2000 (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 2000.

Lending policy

The Commissioners have made clear in successive circulars that they could not lend to an authority which had chosen to act illegally. In addition, the Board has a statutory obligation to satisfy itself, before advancing a loan, that the authority is 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. Authorities have been complying with this requirement 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 portfolio of loans from the Board. 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 121 of 17 April 2000, were largely unchanged from the previous year.

HM Treasury made three changes to the determination of rates of interest on loans from the Board. All three, which are explained in detail below (see page 14), were announced in Circular 122 of 3 October 2000.

Applications for loans

During the year 1,066 applications for loans at quota rates totalling £4,950.1 million were considered and approved to the extent of £4,948.7 million. The difference reflects one application that was reduced because the amount sought seemed likely to exceed the balance of quota available. No applications were refused.

Eighty-eight authorities submitted 127 applications for special consideration, of which 123 were approved in full. Of the 127:

- 64 were from authorities wishing to restructure their PWLB debt portfolios;
- 36 were from authorities seeking to refinance maturing long-term market debt;
- 20 were from authorities wishing to repay market debt prematurely;
- three were from authorities wishing to replace short-term market loans;
- two were to refinance inherited debt;
- one was to fund capital expenditure enabled by capital receipts which had already been used in lieu of earlier borrowing;
- one to finance capital expenditure that had been undertaken in 1999-2000 from cash balances.

Four applications were refused:

- two because the authority held investments that could be used instead of fresh borrowing;
- one because of doubts about the legality of the borrowing to be refinanced (but after consultation with the local authority it was allowed in 2001-02);
- one because it was not the Commissioners' policy to grant additional quota for the purpose specified by the authority.

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 2000-01 seven applications totalling £8,989,237 and covering 771 small loans were approved. One hundred and thirty-six applications totalling £156,979,245 and covering 18,318 loans have been approved and refinanced since the scheme was introduced.

Applications for advances were received from 407 local authorities, including 252 non-principal authorities. This compared with 342 local authorities, including 60 non-principal authorities, in 1999-2000. Out of a total of 443 principal authorities 288 did not make loan applications to the Board during the year, compared with 169 in 1999-2000. Ninety-three principal authorities had no debt outstanding to the Board as at 31 March 2001, compared with last year's figure of 78.

Advances to parishes are in respect of particular projects. Projects supported during the year included the building of a community centre, the development of playing fields and the extension of a burial ground.

Reorganisation of local government

The Greater London Authority and its functional bodies were formally constituted during the year, but took no loans.

Harbour authorities; State Aid rules

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. No loans were made to harbours during the year. However, at the same time it emerged that loans made in earlier years to a Scottish harbour had inadvertently breached EU rules on State Aid to the shipbuilding and ship-repair industries. The Board's loans were considered in breach because they were at below commercial rates and had been guaranteed by the local authority. After consulting the client harbour, the Board agreed that the loans should be cancelled, as they were null and void. Accordingly, the outstanding balances of principal were repaid at par.

The Board is now aware of the possible relevance of the State Aid rules. However, loans to harbours will not necessarily breach these rules. All will depend on the detailed circumstances.

Incidence of drawings

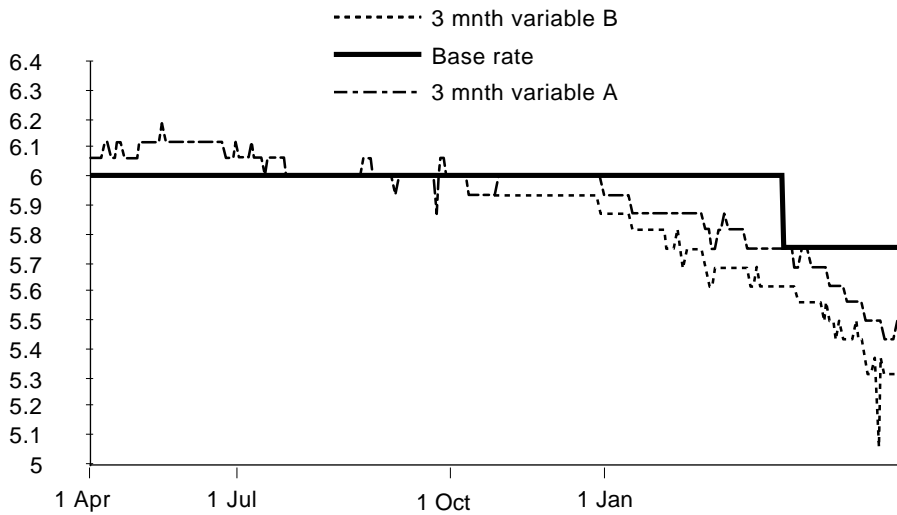
The timing of loan applications was, as usual, closely related to the authorities' perception of current and future interest rate movements. October saw the change in the determination of rates on page 14. The following month was the busiest of the year, when the Lower quota rate for 25-year maturity loans ranged between 4 ⁵/₈ % and 4 ⁷/₈ %. 4 ⁵/₈ % was the lowest figure this rate reached in the year.

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 3 reflects the change in the method of determining variable rates that came into effect on 3 October. In the table, 'B' represents the method used up to that date and 'A' the new method based on the repo rate. The table illustrates how, following the new determination of rates, both sets of rates tended to be less than base rate and that the new 'A' rates were generally below those of the old 'B' rates.

Table 2: Monthly totals of advances

	<i>Fixed rate</i>		<i>£ million</i> <i>Variable rate</i>		<i>2000-01</i> <i>Total</i>	<i>1999-2000</i> <i>Total</i>
	<i>New</i>	<i>Converted</i>	<i>New</i>	<i>Converted</i>		
		<i>from</i> <i>variable</i>		<i>from</i> <i>fixed</i>		
April	723.9	3.5	-	-	727.4	210.9
May	380.7	-	-	-	380.7	122.4
June	640.3	82.6	-	12.0	734.9	304.9
July	64.4	-	-	4.5	68.9	526.3
August	251.3	-	-	3.8	255.1	1,076.7
September	93.8	-	1.0	8.8	103.6	348.0
October	127.2	-	1.8	7.0	136.0	329.6
November	1,317.5	1.1	-	11.0	1,329.6	2,372.0
December	373.3	5.6	-	-	378.9	208.3
January	395.5	-	10.3	61.6	467.4	296.3
February	91.2	-	-	36.0	127.2	151.6
March	453.9	-	22.6	139.0	615.5	1,024.1
	4,913.0	92.8	35.7	283.7	5,325.2	6,971.1

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



Rate 'B' applied to loans advanced before 3 October 2000; Rate 'A' to those advanced on or after that date.

Table 4: Fixed 'Lower' Rate

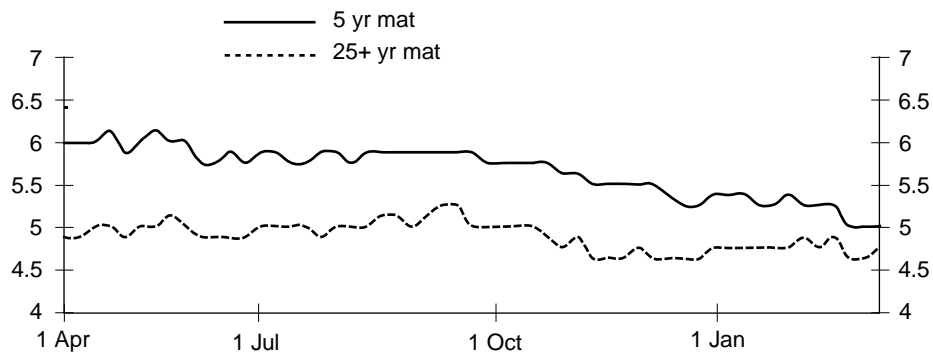
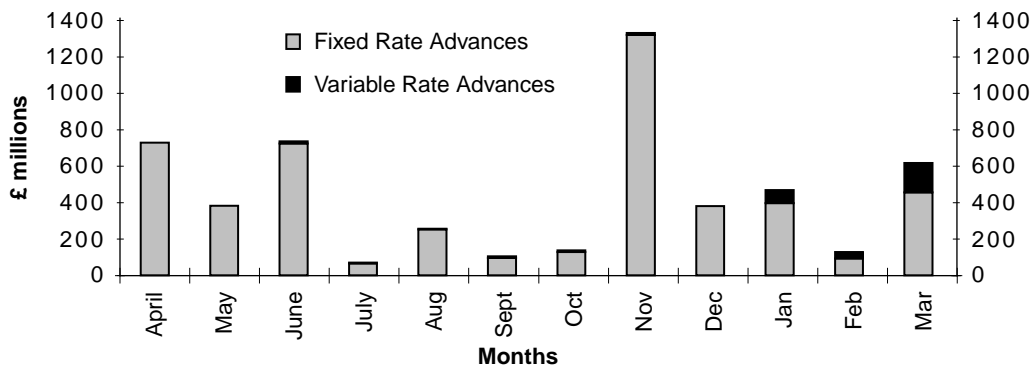


Table 5: Monthly Advances



Repayment periods

During the year, the interest rates for the shorter loan periods moved down, to be closer to those available at the longer end (table 4) but nonetheless, as in previous years, authorities took the bulk of their loans for the long term. Loans amounting to £4,897.3 million were taken for over 15 but not over 25 years, whereas loans amounting to only 9% (£422.7 million) of this figure were taken for lesser periods. Of the shorter maturities, those up to five years were the most popular. One loan of £5.2 million was taken for over 25 years, under residual contractual obligations arising in the case of variable loans outstanding at 22 February 2000. Variable rate loans were out of favour until the last quarter of the year.

Non-quota A and Non-quota B loans

If 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.

Non-quota B loans are available to an authority that needs additional capital finance in the 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 has been no application for either facility since the 1970s.

Loans made in 2000-01

Loans made during the year amounted to £5,325.2 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, including loans to non-principal authorities and loans against quota carried forward from 1999-2000, was £3,768.1 million. 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. Gross advances, at £5,325 million, were 24% less than the figure of £6,971 million in 1999-2000.

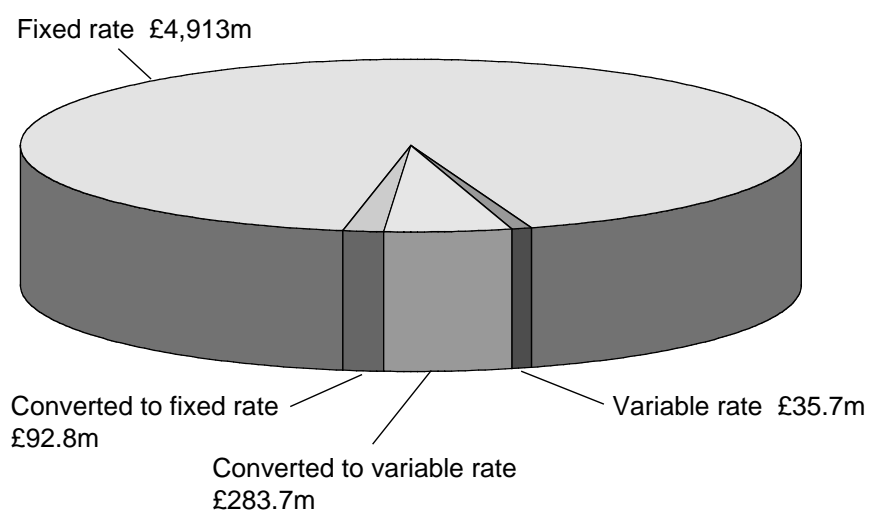
Table 6: Analysis of Lending

	<i>£ million</i>			
	<i>Gross advances</i>	<i>Principal repayments</i>	<i>2000-01 Net lending</i>	<i>1999-2000 Net lending</i>
Quota loans (see page 4)	3,768	1,768	2,000	1,767
Loans in addition to quotas (see page 5)	1,172	-	1,172	2,520
Conversions (see page 15)	376	376	-	-
Premature payments (see page 15)	-	2,063	(2,063)	(2,945)
Refinancing of loans with small balances (see page 5)	9	9	-	-
	<u>5,325</u>	<u>4,216</u>	<u>1,109</u>	<u>1,342</u>

Table 7: Advances at Lower and Higher rates of interest

	<i>£ million</i>		
	<i>Lower</i>	<i>Higher</i>	<i>2000-01 Total</i>
Quota loans	2,874	700	3,574
Quota loans carried over from 1999-2000	122	65	187
Loans in addition to quota	1,136	36	1,172
Parishes and Community Councils	7	-	7
Conversions	351	25	376
Refinancing of loans with small balances	6	3	9
	<u>4,496</u>	<u>829</u>	<u>5,325</u>

Table 8: Advances and conversions



Most advances (£4,913 million or 92%) during the year were in respect of new fixed rate loans (table 8).

Tables 9 and 10 below illustrate the average rate of interest and the average repayment period for all new fixed rate loans in each of the last 5 years. The marked fall in the average period between 1999-2000 and 2000-01 reflects the decision by HM Treasury during 1999-2000 to cease setting a rate for periods of over 25 years.

Table 9: Average rate (%)

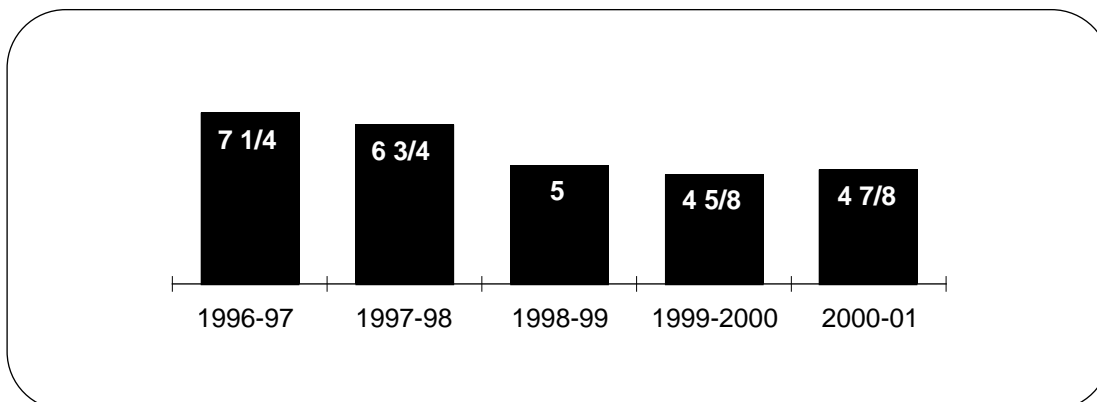
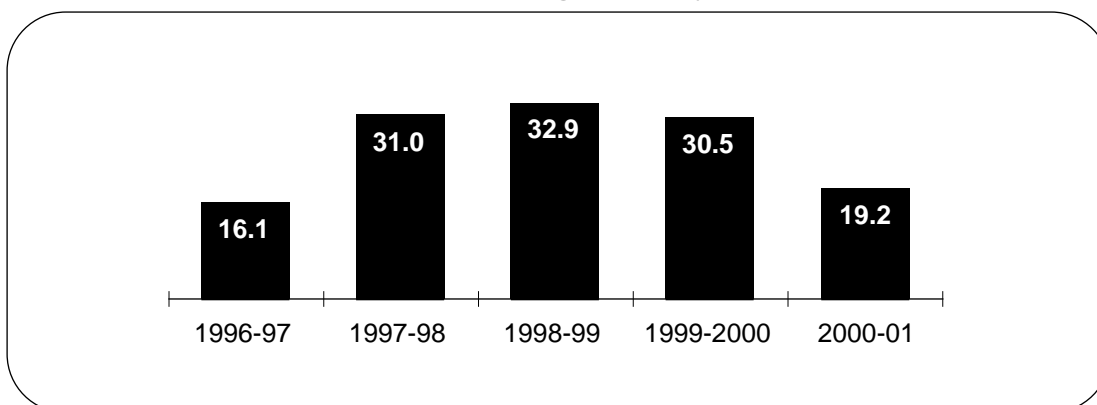


Table 10: Average period (years)



The average annual rate payable on variable rate loans outstanding at 31 March 2001 was 5.563% compared with 5.981% at 31 March 2000.

The number of loan accounts opened during 2000-01 was 1,373 (1,628 in 1999-2000). At 31 March 2001 the total number of open accounts was 30,646, a decrease of 3,876 from the previous year, continuing the general trend of recent years. The number of premature repayments in the year, which included 356 loans repaid as the result of authorities using additional sums to restructure their portfolios, rose to 2,787 from 1,925 in 1999-2000. 771 accounts (1,766 in 1999-2000) were closed as a result of the refinancing of loans with small balances.

Table 11: Type of borrower

	<i>£ million</i>				<i>Totals</i>	
	<i>Fixed rate</i>		<i>Variable rate</i>		<i>2000-01</i>	<i>1999-2000</i>
	<i>New</i>	<i>Converted from Variable</i>	<i>New</i>	<i>Converted from Fixed</i>		
Local authorities in England						
County Councils	711.8	-	-	17.5	729.3	984.9
London Borough Councils	510.8	78.6	-	3.7	593.1	1,139.5
Metropolitan District Councils (a)	1,289.2	9.2	28.0	127.6	1,454.0	1,598.2
Non-Metropolitan District Councils	1,034.6	1.1	7.7	72.0	1,115.4	1,044.3
Parish Councils	7.3	-	-	-	7.3	8.1
Others	153.1	-	-	4.0	157.1	99.1
	3,706.8	88.9	35.7	224.8	4,056.2 (76.2%)	4,874.1 (69.9%)
Local authorities in Wales						
Principal Councils	448.9	-	-	20.0	468.9	590.6
Community Councils	0.2	-	-	-	0.2	0.3
Others	4.0	-	-	-	4.0	3.7
	453.1	-	-	20.0	473.1 (8.9%)	594.6 (8.5%)
Local authorities in Scotland						
Principal Councils	750.4	3.9	-	38.8	793.1	1,499.3
Others	2.7	-	-	0.1	2.8	3.1
	753.1	3.9	-	38.9	795.9 (14.9%)	1,502.4 (21.6%)
Total	4,913.0	92.8	35.7	283.7	5,325.2	6,971.1

(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>Total</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>2000-01</i>
		<i>years</i>	<i>not over</i>	<i>not over</i>	<i>not over</i>	<i>years</i>	
			<i>10 years</i>	<i>15 years</i>	<i>25 years</i>		
Fixed rate loans							
Rate of interest							
per annum							
4 1/4	-	-	-	-	-	-	-
4 3/8	-	-	-	-	-	-	-
4 1/2	-	-	-	-	-	-	-
4 5/8	-	-	-	706.2	5.2	711.4	
4 3/4	-	-	0.5	1,334.3	-	1,334.8	
4 7/8	-	-	-	2,087.6	-	2,087.6	
5	6.2	14.6	1.2	500.4	-	522.4	
5 1/8	16.9	0.3	7.8	174.2	-	199.2	
5 1/4	0.1	1.2	0.1	67.9	-	69.3	
5 3/8	5.1	1.0	2.8	6.0	-	14.9	
5 1/2	14.5	16.5	8.0	6.4	-	45.4	
5 5/8	-	-	0.1	13.8	-	13.9	
5 3/4	-	0.2	-	0.5	-	0.7	
5 7/8	1.0	2.1	-	-	-	3.1	
6	1.1	0.1	-	-	-	1.2	
6 1/8	0.6	-	-	-	-	0.6	
6 1/4	0.1	-	-	-	-	0.1	
6 3/8	1.2	-	-	-	-	1.2	
6 1/2	-	-	-	-	-	-	
6 5/8	-	-	-	-	-	-	
		46.8	36.0	20.5	4,897.3	5.2	5,005.8
Variable rate loans		285.8	33.6	-	-	-	319.4
All loans		332.6	69.6	20.5	4,897.3	5.2	5,325.2

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>2000-01</i>	<i>1999-2000</i>
Fixed rate loans							
new loans -							
Maturity	41.5	33.8	16.9	4,752.1	-	4,844.3	6,045.1
Annuity	0.2	0.8	0.7	5.0	-	6.7	8.1
Equal instalments of principal	5.1	1.4	2.9	52.6	-	62.0	48.1
	46.8	36.0	20.5	4,809.7	-	4,913.0 (92.3%)	6,101.3 (87.5%)
Fixed rate loans							
converted loans -							
Maturity	-	-	-	87.6	5.2	92.8	81.6
Annuity	-	-	-	-	-	-	-
Equal instalments of principal	-	-	-	-	-	-	-
	-	-	-	87.6	5.2	92.8 (1.7%)	81.6 (1.2%)
Variable rate loans							
new loans -							
Maturity	12.1	23.6	-	-	-	35.7	26.9
Equal instalments of principal	-	-	-	-	-	-	1.1
	12.1	23.6	-	-	-	35.7 (0.7%)	28.0 (0.4%)
Variable rate loans							
converted loans -							
Maturity	266.7	10.0	-	-	-	276.7	536.8
Equal instalments of principal	7.0	-	-	-	-	7.0	223.4
	273.7	10.0	-	-	-	283.7 (5.3%)	760.2 (10.9%)
All loans							
Maturity	320.3	67.4	16.9	4,839.7	5.2	5,249.5 (98.6%)	6,690.4 (96.0%)
Annuity	0.2	0.8	0.7	5.0	-	6.7 (0.1%)	8.1 (0.1%)
Equal instalments of principal	12.1	1.4	2.9	52.6	-	69.0 (1.3%)	272.6 (3.9%)
	332.6	69.6	20.5	4,897.3	5.2	5,325.2	6,971.1

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 three 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. At the start of the year, 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, while 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.

At the start of October, HM Treasury made three changes to the determination of rates of interest on loans from the Board. Firstly, the 15-25 year maturity band was split into two: one band for loans of over 15 years but not over 20 years and the other for loans of over 20 years but not over 25 years. Secondly, in determining the Board's interest rates, HM Treasury increased the rounding margin by 1/8th of a percentage point, restoring it to the level that used to be added before a reduction in 1996. Thirdly, HM Treasury decided to alter the basis of the calculation of variable interest rates so that it was based on the General Collateral repo rates, which is considered a better measure of the Government's cost of borrowing in the cash market than eligible bill rates. The new arrangements applied to all loans agreed on or after 3 October.

The splitting of the 15-25 year maturity band was expected to lead to a reduction in the interest rate in one or other of the two new bands. The reinstatement of the 1/8th margin to the rates for variable rate quota loans and fixed rate Lower quota loans was intended to reassure HM Treasury that it was meeting its obligations under the 'no loss' provisions of the National Loans Act particularly when market yields moved. The differential between Lower and Higher quota rates was maintained, still leaving Higher quota rates below the rates borrowers could obtain in the market.

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.

Repayments

Repayments of principal amounting to £4,216.0 million, including £376.5 million for conversions, and interest payments of £3,735.6 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 balance 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, £2,063.4 million (£2,950 million in 1999-2000) represented loans repaid before they were due, which included £840 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. Six authorities repaid variable rate loans prematurely, redeeming 19 loans totalling £56.3 million, compared to last year's figure of only six loans and £5.1 million.

Premiums of £360.5 million were paid during the year and discounts of £8.4 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 334 and these were replaced by 31 variable rate loans. Fourteen variable rate loans were replaced by 9 fixed rate loans.

Of the £376.5 million converted, replacement of fixed rate loans amounted to £283.7 million and, on these, premiums of £10.6 million were paid and discounts of £13.4 million were allowed; these sums are also included in the total of interest paid given above. The replacement of variable rate loans amounted to £92.8 million and attracted premiums totalling £97,089; the discounts allowed amounted to £6,472. This was in contrast to 1999-2000, when variable rate loans amounting to £81.6 million were converted as against fixed rate loans amounting to £760.2 million.

Payment by direct debit

Two hundred and eighty three (81%) of the principal authorities and 758 (68%) other borrowers were making their repayments by direct debit as at 31 March 2001. Allowing for the reduction in the overall number of borrowers, this represents approximately a 10% improvement over last year.

Repayments in arrears

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 non-banking day, which it did in 2001. All the overdue payments as shown in table 1 on pages 2-3 were settled early in 2001-02.

Misappropriation of money by parish clerk in Worcestershire

During the year arrears arose temporarily following the misappropriation of funds by the clerk of a number of parish councils in Worcestershire. Last year's Report referred to difficulties which had arisen in these circumstances. Matters proceeded further in 2000-01, and the background is set out below.

In October 1999, West Mercia Constabulary's fraud squad had alerted the Board to the activities of the clerk to four parish councils in the County of Worcestershire. The four councils all had loans outstanding from the Board. Subsequently the clerk was prosecuted and pleaded guilty to 27 specimen charges of dishonesty, theft and false accounting, including a charge of obtaining money by deception from the Board. In February 2001 she was sentenced to a net term in prison of three years.

Following the discovery of the clerk's activities, the parish with the biggest debts began to withhold repayments. The Board initiated legal action, asserting its right to prompt repayment. A second parish suspended its payments but only temporarily. The remaining two parishes continued to make their repayments as normal. The Board's legal action did not come to court because the defaulting council achieved a financial settlement with a third party sufficient to enable it to pay off its debts to the Board.

The Board's internal auditors have since checked the procedures for lending to parish councils, finding overall that controls on loans to parishes were sufficiently robust to enable them to give a full assurance in respect of the Board's procedures. Nevertheless, certain recommendations to improve controls in this area have been implemented.

The Audit Commission has issued a consultation paper on the auditing of parish, town and community councils. The Board, in commenting on the paper, suggested lessons to be drawn from this case.

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 successive 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 2000-01.

Loan Account Combinations

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 administrative convenience. 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 fee for exercising the option to replace a fixed rate with a variable rate loan, or *vice versa*, was £70.

Modernising Government

The Board is developing plans in line with the Government's modernisation agenda. A website was opened at the beginning of 2001 at the web address www.pwlb.gov.uk. The site contains the Board's latest publications, including the Interest Rate Notice in force on the day.

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. The gross expenditure by the Board for 2000-01 was £0.8 million.

Fee income amounted to £1.7 million. Part of the Board's income notionally covers the future cost of maintaining loans but, for the purposes of Government accounting, the whole of the cash surplus, which in 2000-01 amounted to £0.9 million, is surrendered to the Consolidated Fund.

At 31 March 2001 the number of full-time equivalent staff employed by the Board was 12.

Appendices

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

Appendix B - lists the Board's circulars issued during 2000-01.

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
05 July 2001

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
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
2000-01	6,101.2	47,169.5	5,629.3	4,049.6	4 7/8	7 1/2	66,816.5	70.6

Notes:

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

* Not available

Appendix B

Circulars issued during 2000-01

No. 121	17 April 2000	Arrangements for lending to local authorities from 1 April 2000
No. 122	3 October 2000	Changes to rate structure; Fees for converting loans (correction)
No. 123	13 March 2001	Quota arrangements for 2001-02
No. 124	30 March 2001	Arrangements for lending to local authorities from 1 April 2001

Appendix C

Tables in this Report

Table

1	Statement of transactions and balances outstanding
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3	Base lending rate and the three month variable rate: line graph
4	Fixed Lower rates: line graph
5	Monthly advances: bar graph
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7	Advances at Lower and Higher rates of interest
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