



Public Works Loan Board

*127th Annual Report
2001-2002*

*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 NOAKES¹ Partner, KPMG; Non-Executive Director, Bank of England; President, Institute of Chartered Accountants in England and Wales 1999-2000	-
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
1997	B. M. TANNER, CBE, DL Chairman, Taunton & Somerset NHS Trust; Former Chief Executive, Somerset County Council; President, Society of County Treasurers 1989-90	2005
1997	MRS R. TERRY Director, HACAS Exchequer Services Limited; Former Partner, Touche Ross & Company	2003
1998	D. W. MIDGLEY Former 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
2001	MISS MEI SIM LAI Partner, Pridie Brewster	2005
2001	G. EDWARDS The Corporate Director of Finance and ICT, Aberdeen City Council	2005
2001	D. ARCULUS² Chairman, Severn Trent plc	-

¹ resigned May 2001

² resigned March 2002

Annual Report

2001-2002

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 2002

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 J. Andrews, Mr T.W. Fellowes and Mr B.M. Tanner expired on 1 April 2001. By Royal Warrant Mr Tanner was reappointed as a Commissioner for a further term of four years and Miss Mei Sim Lai and Mr G. Edwards were appointed as Commissioners, each for a term of four years, in place of Mr Fellowes and Mr Andrews.

The Baroness Noakes resigned from the Board in May 2001 and was replaced by Mr D. Arculus, who himself resigned in March 2002. Both cited pressure from other commitments. The Board is grateful for their contributions.

The term of Miss Di Palma expired on 1 April 2002. The Board wishes to pay tribute to her long service as a Commissioner since 1978 and as Deputy Chairman since 1997 and place on record its thanks to her and its appreciation of her valued contribution.

Secretary to the Board

Mr I.H. Peattie, who was appointed Secretary to the Board in August 1987, will retire on 1 July 2002. He joined the Board's staff in July 1965 and became Assistant Secretary in 1978. The Commissioners wish to record their appreciation of his long and excellent service to the Board.

As part of the changes in arrangements for managing the Government's debts and assets, described on page 16, Mr H.D. Watson, a senior manager in the UK Debt Management Office, will succeed Mr Peattie as Secretary. Mr M.S. Frankel will remain Assistant Secretary to the Board.

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 2002, the balance of principal outstanding from borrowers, together with loans committed but not yet advanced, was £47,045 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 £4,442.3 million were made in 2001-02. Appendix A (table 14) on page 18 gives an historical summary of the Board's lending.

Table 1: Summary of transactions

	<i>In the Year 2001-2002</i>		
	<i>Advances</i>	<i>Repayments of principal</i>	<i>Interest received</i>
	£	£	£
Loans on local revenues to:			
Local Authorities in England:			
County Councils	823,737,466	428,435,453	402,551,060
London Borough Councils	288,766,995	621,954,873	757,937,538
Metropolitan District Councils (a)	1,032,757,641	1,295,344,259	921,424,777
Non-Metropolitan District Councils	885,198,228	1,113,456,307	575,097,246
Parish and Town Councils	8,164,028	3,874,032	3,942,325
Others	159,857,636	91,508,402	84,950,733
	<u>3,198,481,994</u>	<u>3,554,573,326</u>	<u>2,745,903,679</u>
Local Authorities in Wales:			
Principal Councils	358,174,017	310,702,738	221,015,713
Community Councils	155,000	133,984	119,099
Others	4,699,386	2,700,346	2,322,842
	<u>363,028,403</u>	<u>313,537,068</u>	<u>223,457,654</u>
Local Authorities in Scotland:			
Principal Councils	877,897,927	692,919,689	676,421,511
Others	2,957,802	5,485,154	37,331,866
	<u>880,855,729</u>	<u>698,404,843</u>	<u>713,753,377</u>
Total loans on local revenues	<u>4,442,366,126</u>	<u>4,566,515,237</u>	<u>3,683,114,710</u>
Loans on property to:			
England: Harbour Authorities	0	4,955	2,271
Wales: Harbour Authorities	0	0	0
Scotland: Harbour Authorities	0	234,686	1,099,914
Total loans on property	<u>0</u>	<u>239,641</u>	<u>1,102,185</u>
Total loans on local revenues and on property	<u>4,442,366,126</u>	<u>4,566,754,878</u>	<u>3,684,216,895</u>
Add totals from 1817:			
To 31 March 2001	147,161,671,853	99,934,149,105	82,104,769,191
Principal remitted or extinguished:			
To 31 March 2001		58,004,941 (c)	
In the year 2001-02		0	
Total at 31 March 2002	<u>151,604,037,979</u>	<u>104,558,908,924</u>	<u>85,788,986,086</u>
(a) Includes authorities administering debt on behalf of former Metropolitan County Councils			
(b) See page 15 – Repayments in arrear at 31 March 2002			
(c) Includes £55,013,916 extinguished on privatisation of water authorities			
(d) Total balance outstanding			

and balances outstanding

<i>Balances outstanding at 31 March 2002</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>	
£	£	£	
15,757,259	5,884,977,903	23,811,568	Loans on local revenues to:
3,265,938	9,127,062,237	37,620,096	Local Authorities in England:
87,618,528	11,470,560,516	37,381,297	County Councils
39,619,951	6,484,107,104	46,025,146	London Borough Councils
123,772	56,113,157	211,425	Metropolitan District Councils (a)
11,585,061	1,336,141,178	13,578,260	Non-Metropolitan District Councils
			Parish and Town Councils
			Others
157,970,509	34,358,962,095	158,627,792	
			Local Authorities in Wales:
1,796,826	3,230,764,795	21,803,040	Principal Councils
3,954	1,598,815	1,272	Community Councils
319,999	35,193,069	170,608	Others
2,120,779	3,267,556,679	21,974,920	
			Local Authorities in Scotland:
4,023,162	8,859,301,093	43,794,939	Principal Councils
0	381,643,891	51,389	Others
4,023,162	9,240,944,984	43,846,328	
164,114,450	46,867,463,758	224,449,040	Total loans on local revenues
0	22,313	0	Loans on property to:
0	0	0	England: Harbour Authorities
0	13,528,535	0	Wales: Harbour Authorities
			Scotland: Harbour Authorities
0	13,550,848	0	Total loans on property
164,114,450	46,881,014,606	224,449,040	(b) Total loans on local revenues and on property
			Add totals from 1817:
			To 31 March 2001
			Principal remitted or extinguished:
			To 31 March 2001
			In the year 2000-02
164,114,450	46,881,014,606	224,449,040	Total at 31 March 2002
			
47,045,129,056		(d)	

Loans in respect of 2000-01

Details of loans advanced in 2000-01 were given in the Board's Annual Report for that year³, but local authorities are entitled to carry forward into a 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. 2000-01 quotas carried forward and drawn in 2001-02 amounted to £260.6 million and over-issues made during 2000-01, which were deductible from 2001-02 quotas, amounted to £65.5 million. After adjustments, the loans issued in respect of 2000-01 amounted to £5,395.9 million.

General Review of 2001-02

Determination of quotas

After consulting HM Treasury, the Department for Transport, Local Government and the Regions, the Scottish Executive and the National Assembly for Wales, the Commissioners decided that the quota arrangements for 2001-02 should be the same as those for 2000-01 and these are detailed below. As in previous years, the quota formula was designed to enable the Board to meet the bulk of local authorities' requirement for new, long-term borrowing and to encourage authorities to apply their set-aside provisions to meet 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,

the sum of:

Basic and Supplementary credit approvals used in 2001-02

and

Repayments of principal due in 2001-02 on loans from the Board;

for authorities in Scotland,

the sum of:

capital consent allocations used in 2001-02

and

Repayments of principal due in 2001-02 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 2001 (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 2001.

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

³ Public Works Loan Board: *126th Annual Report 2000-01* (The Stationery Office, 2001; ISBN 0 11 560094 9)

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. For many years authorities have been complying with this annual requirement and the Commissioners have again found no cause in this respect to make further enquiries of any authority during the year.

The Commissioners recognise that the world of local government finance has changed considerably in the years since the Local Government and Housing Act 1989 was passed. Treasury management has become subject to professional standards and management, and new systems of capital controls are set to be introduced. The Commissioners, however, continue to take an interest in local authorities facing financial difficulties, as when, for example, an authority is within a prohibition period under s115(9) Local Government Finance Act 1988 and will consult the authority and, where appropriate, central government to satisfy themselves about the security of any loans.

The Commissioners continue to offer loans in addition to the quota where authorities might be encountering exceptional financial hardship. For many years there have been no applications from local authorities seeking additional loans on these grounds. However, the Commissioners believe it is important that they should continue to make known their role as local government's lender of last resort and that they will be open to loan applications made to them in this capacity. The Commissioners have also continued to offer loans in addition to the quota in wider circumstances and it has become routine for local authorities to seek additional loans in pursuit of good treasury management, for example, where the authority wishes to refinance maturing market debt, to replace short-term borrowings or to restructure its portfolio of loans from the Board.

In December, the Department for Transport, Local Government and the Regions published a White Paper on local government in England⁴ which included proposals to give local authorities greater flexibility to undertake capital investment. Similar changes are proposed in Scotland and Wales. The changes are not due to be implemented before April 2004 but the White Paper made clear, amongst other matters, that local authorities will continue to have access to the PWLB on very much the same basis as present. The Commissioners welcome this expression of confidence in the service the Board provides. They will be keeping in touch with the implementation of the changes to local government finance proposed in the White Paper and consulting stakeholders in central and local government about the potential effect on the Board's lending arrangements. For example, if credit approvals and capital consents are abolished, as proposed, changes would be needed to the Board's quota formulae.

Debt Management Account Deposit Facility

The White Paper also proposed a facility run by the Government whereby local authorities could deposit funds through the Board. During the year the Board has been working on this proposal in consultation with the UK Debt Management Office (DMO). On 2 April DMO began accepting cash deposits from a number of local authorities as part of a pilot scheme known as the Debt Management Account Deposit Facility (DMADF). This has been made possible by new regulations which came into force on 1 April 2002 introducing additional investment options for local authorities by enabling them to invest in the DMADF and also in commercial money market funds. The progress of the pilot will be monitored during 2002-03.

As described on page 16, the PWLB will be integrated with the DMO with effect from 1 July 2002.

⁴ *Strong Local Leadership - Quality Public Services* (Department for Transport, Local Government and the Regions, 2001; ISBN 0 10 153272 5)

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 124 of 30 March 2001, were largely unchanged from the previous year.

The Commissioners believe they should remove any obstacles that their own arrangements may present to efficient treasury management. Accordingly, during the year they added to the facility whereby local authorities can refinance loans. In December the facility was expanded to allow a fixed rate loan to be replaced by another fixed rate loan without regard to the previous stipulation that the balance outstanding on the existing loan should be £100,000 or less. This relaxation provided greater flexibility to local authorities wishing to restructure their loan portfolios and has largely put an end to the need for borrowers to seek additional quota for this purpose.

The facility was welcomed by local authorities and, by 31 March 2002, the Board had approved the refinancing of 162 existing loans totalling £290.3 million with 23 fixed rate loans under the modified scheme.

Applications for loans

During the year 856 applications for loans at quota rates totalling £3,092.4 million were considered and approved in full.

Forty-five authorities submitted 59 applications for special consideration, of which 55 were approved in full. Of the 59:

- 35 were to restructure PWLB debt portfolios;
- 11 were to repay market debt prematurely;
- 10 were to refinance maturing long-term market debt;
- Two were to replace short-term market loans;
- One was to refinance inherited debt.

Two applications were refused because the authorities held investments that could be used instead of new borrowing.

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. As explained above, the scheme was modified during the year. Seven applications totalling £7,386,928 and covering 1,192 small loans were approved. One hundred and forty-three applications totalling £164.4 million and covering 19,510 loans have been approved and refinanced since the scheme was introduced.

Applications for advances were received from 396 local authorities, including 224 non-principal authorities. This compared with 407 local authorities, including 252 non-principal authorities, in 2000-01. Out of a total of 443 principal authorities 271 did not make loan applications to the Board during the year, compared with 288 in 2000-01. One hundred and ten principal authorities had no debt outstanding to the Board as at 31 March 2002, compared with last year's figure of 93.

Incidence of drawings

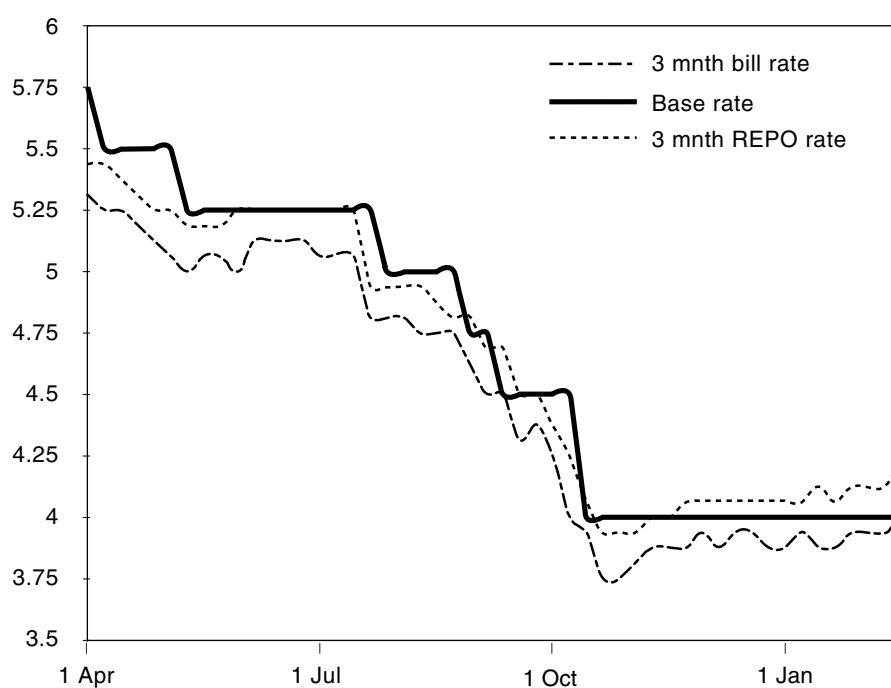
August and November saw the busiest periods of lending, reflecting the fluctuation in the Board's interest rates. In August the 25 year fixed maturity rate in the Lower set of rates fell below 5% for the first time since early April, whilst all of the Board's rates were below 5% during the early weeks of November.

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 pages 7- 8.

Table 2: Monthly totals of advances

	Fixed rate		Variable rate		2001-02 Total	2000-01 Total
	New	Converted from variable	£ million			
			New	Converted from fixed		
April	167.7	-	-	16.2	183.9	727.4
May	56.2	-	-	186.2	242.4	380.7
June	40.9	-	0.6	11.5	53.0	734.9
July	247.7	4.5	10.0	53.6	315.8	68.9
August	975.1	22.2	10.0	49.8	1,057.1	255.1
September	316.2	22.1	-	-	338.3	103.6
October	99.7	3.5	-	182.4	285.6	136.0
November	764.7	37.8	11.0	6.0	819.5	1,329.6
December	81.2	-	0.6	140.5	222.3	378.9
January	185.3	-	-	59.6	244.9	467.4
February	106.6	2.0	11.1	19.9	139.6	127.2
March	211.5	-	86.6	241.8	539.9	615.5
	<u>3,252.8</u>	<u>92.1</u>	<u>129.9</u>	<u>967.5</u>	<u>4,442.3</u>	<u>5,325.2</u>

Table 3: Base lending rate and the three-month variable rates



The rate based on eligible bills applied to variable loans advanced before 3 October 2000, the rate based on gilt repos to those advanced on or after that date.

Table 4: Fixed 'Lower' Rate

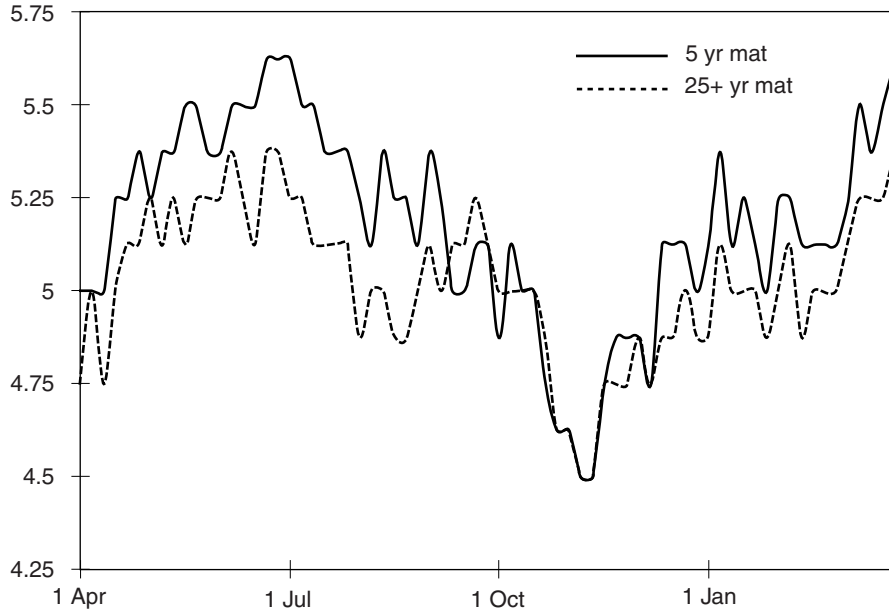
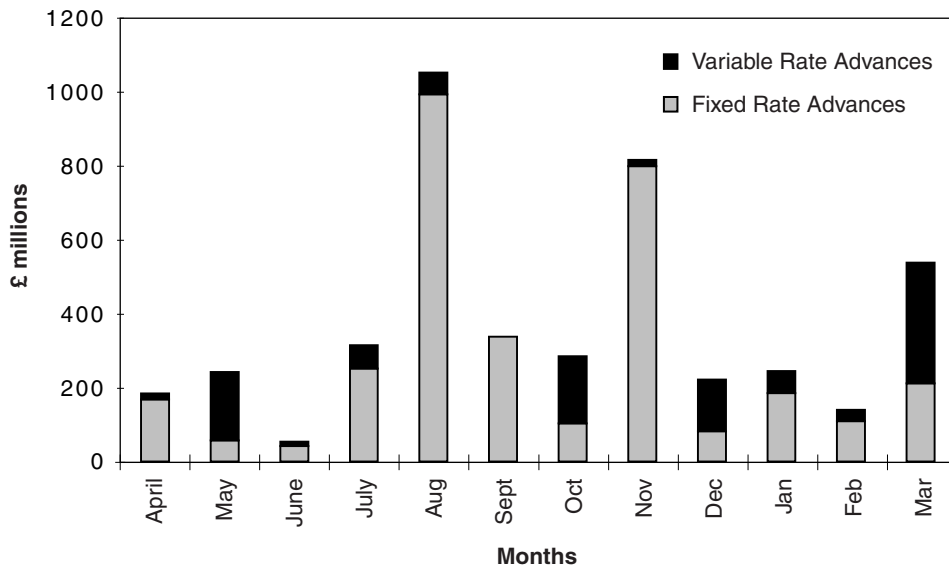


Table 5: Monthly Advances



Repayment periods

Throughout the year the interest rates for the shorter-term fixed rate loan periods remained close to those available at the longer end, the same interest rate being applied to both the 5 year maturity rate and the 20-25 year maturity rate during a number of weeks from the end of September to the middle of November. However, the 25 year maturity period still proved the most widely used, with loans amounting to £832.1 million (28.1%) taken for this term. Of the shorter fixed rate maturities, the one-year period was the most popular with loans amounting to £54.9 million (1.86%) advanced for this duration.

The average period for new loans taken out during 2001-02 was 16.3 years as compared with 19.2 years during 2000-01.

Four loans amounting to £14.02 million were taken for over 25 years, under residual contractual obligations arising in the case of variable loans outstanding at 22 February 2000. As with last year, most variable rate loans were taken out during 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.

Performance against targets

The Board sets itself performance targets for advancing loans and arranging the premature repayment of loans. Advances are processed according to the timetable set out in the Board's Lending Arrangements⁵ and are normally made within 48 hours of receipt of the application. Twice during the year the target was missed, in both instances because of failure of the Bank of England's CHAPS facility. The performance target for receiving a premature repayment was met on every occasion.

Loans made in 2001-02

Loans made during the year amounted to £4,442.3 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 2000-01, was £2,599.8 million compared with £3,768.1 million in 2000-01, a fall of 31%. 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 £4,442.3 million, were 17% less than the figure of £5,325.2 million in 2000-01.

Table 6: Analysis of lending

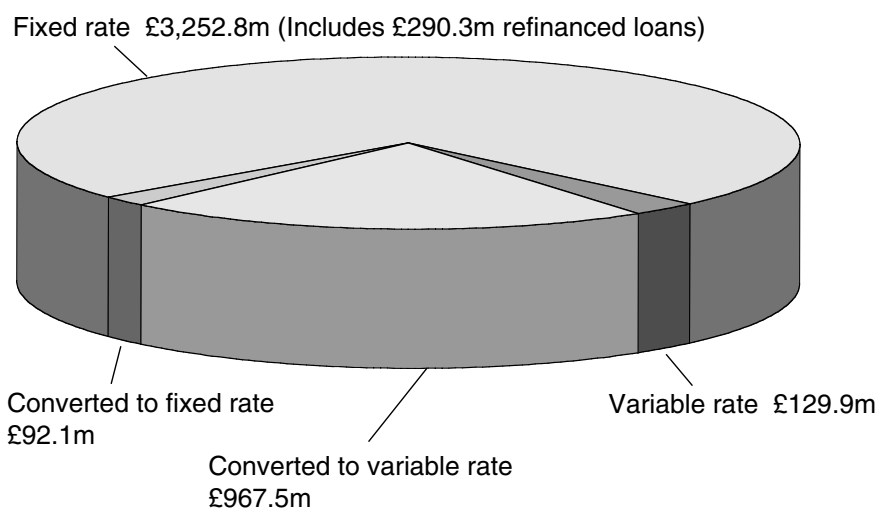
	<i>£ million</i>			
	<i>Gross advances</i>	<i>Principal repayments</i>	<i>2001-02 Net lending</i>	<i>2000-01 Net lending</i>
Quota loans (see page 4)	2,600	1,383	1,217	2,000
Loans in addition to quotas (see page 5)	775	-	775	1,172
Conversions (see page 15)	1,060	1,060	-	-
Premature payments (see page 14)	-	2,116	(2,116)	(2,063)
Refinancing of loans with small balances (see page 6)	7	7	-	-
	<u>4,442</u>	<u>4,566</u>	<u>(124)</u>	<u>1,109</u>

⁵ Public Works Loan Board Annual Circular No. 124 dated 30 March 2001

Table 7: Advances at Lower and Higher rates of interest (£m)

	<i>£ million</i>		<i>2001-02 Total</i>
	<i>Lower</i>	<i>Higher</i>	
Quota loans	2,045	285	2,330
Quota loans carried over from 2000-01	225	36	261
Loans in addition to quota	728	48	776
Parishes and Community councils	8	-	8
Conversions	711	349	1,060
Refinancing of loans with small balances	4	3	7
	3,721	721	4,442

Table 8: Advances and conversions



Most advances (£2,962.5 million or 67%) during the year were in respect of new fixed rate loans.

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

Table 9: Average rate (%)

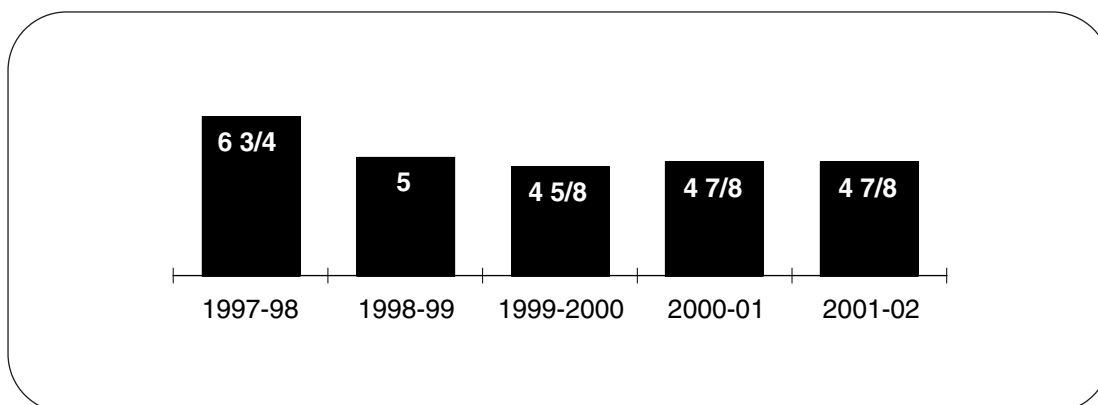
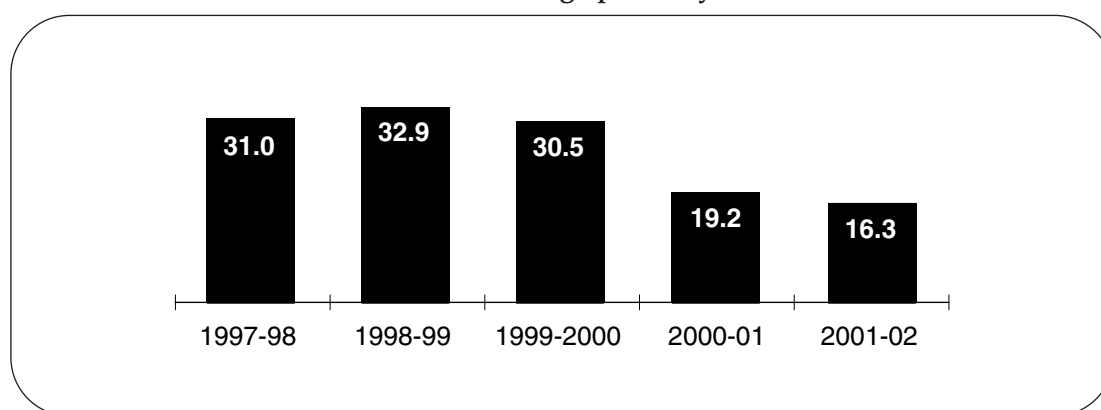


Table 10: Average period (years)



The average annual rate payable on variable rate loans outstanding at 31 March 2002 was 4.1% compared with 5.6% at 31 March 2001 and the average annual rate on all loans outstanding at 31 March 2002 was 7.2% (7.4% in 2000-01).

Table 11: Type of borrower

	<i>£ million</i>				<i>Totals</i>	
	<i>Fixed rate</i>		<i>Variable rate</i>			
	<i>Converted</i>	<i>Converted</i>	<i>Converted</i>	<i>Converted</i>	<i>2001-02</i>	<i>2000-01</i>
	<i>New</i>	<i>from Variable</i>	<i>New</i>	<i>from Fixed</i>		
Local authorities in England						
County Councils	753.6	-	-	70.1	823.7	729.3
London Borough Councils	226.4	-	8.0	54.3	288.7	593.1
Metropolitan District Councils (a)	610.9	-	82.9	339.0	1,032.8	1,454.0
Non-Metropolitan District Councils	600.1	3.5	20.2	261.4	885.2	1,115.4
Parish Councils	8.2	-	-	-	8.2	7.3
Others	121.2	2.0	3.2	33.5	159.9	157.1
	<u>2,320.4</u>	<u>5.5</u>	<u>114.3</u>	<u>758.3</u>	<u>3,198.5</u>	<u>4,056.2</u>
					(72.0%)	(76.2%)
Local authorities in Wales						
Principal Councils	230.4	-	7.0	120.8	358.2	468.9
Community Councils	0.1	-	-	-	0.1	0.2
Others	4.3	-	0.4	-	4.7	4.0
	<u>234.8</u>	<u>-</u>	<u>7.4</u>	<u>120.8</u>	<u>363.0</u>	<u>473.1</u>
					(8.2%)	(8.9%)
Local authorities in Scotland						
Principal Councils	694.7	86.6	8.2	88.4	877.9	793.1
Others	2.9	-	-	-	2.9	2.8
	<u>697.6</u>	<u>86.6</u>	<u>8.2</u>	<u>88.4</u>	<u>880.8</u>	<u>795.9</u>
					(19.8%)	(14.9%)
Total	<u>3,252.8</u>	<u>92.1</u>	<u>129.9</u>	<u>967.5</u>	<u>4,442.3</u>	<u>5,325.2</u>

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

The number of loan accounts opened during 2001-02 was 1,150 (1,373 in 2000-01). At 31 March 2002 the total number of open accounts was 26,782, a decrease of 3,864 from the previous year.

The number of premature repayments in the year, including 380 loans repaid as the result of authorities using additional sums to restructure or refinance their portfolios, reduced to 2,678 from 2,787 in 2000-01.

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>2001-02</i>
Fixed rate loans						
Rate of interest per annum						
3 7/8	4.4	-	-	-	-	4.4
4	6.4	-	-	-	-	6.4
4 1/8	3.8	-	-	-	-	3.8
4 1/4	3.2	0.2	-	-	-	3.4
4 3/8	12.0	0.4	-	-	-	12.4
4 1/2	31.9	5.5	-	474.4	-	511.8
4 5/8	10.2	2.0	22.1	83.9	-	118.2
4 3/4	32.5	0.2	0.2	295.2	-	328.1
4 7/8	52.0	0.7	-	1,382.9	6.0	1,441.6
5	22.9	0.6	4.1	135.9	-	163.5
5 1/8	34.7	9.3	0.5	387.3	8.0	439.8
5 1/4	2.0	5.9	3.4	163.6	-	174.9
5 3/8	7.2	0.2	7.5	61.3	-	76.2
5 1/2	9.0	15.1	2.3	20.3	-	46.7
5 5/8	0.9	2.3	-	8.5	-	11.7
5 3/4	-	1.0	1.0	-	-	2.0
5 7/8	-	-	-	-	-	-
6	-	-	-	-	-	-
	<u>233.1</u>	<u>43.4</u>	<u>41.1</u>	<u>3,013.3</u>	<u>14.0</u>	<u>3,344.9</u>
Variable rate loans	938.3	159.1	-	-	-	1,097.4
All loans	<u>1,171.4</u>	<u>202.5</u>	<u>41.1</u>	<u>3,013.3</u>	<u>14.0</u>	<u>4,442.3</u>

Table 13: Method and period for repayment

<i>Method of repayment</i>	<i>£ million</i>					<i>Totals</i>	
	<i>Period for repayment</i>					<i>2001-02</i>	<i>2000-01</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>		
Fixed rate loans							
new loans -							
Maturity	183.4	39.6	39.2	2,857.2	-	3,119.4	4,844.3
Annuity	8.3	1.0	1.6	22.1	-	33.0	6.7
Equal instalments of principal	13.2	2.8	0.3	84.1	-	100.4	62.0
	<u>204.9</u>	<u>43.4</u>	<u>41.1</u>	<u>2,963.4</u>	<u>-</u>	<u>3,252.8</u> (73.2%)	<u>4,913.0</u> (92.3%)
Fixed rate loans							
converted loans -							
Maturity	28.2	-	-	49.9	14.0	92.1	92.8
Annuity	-	-	-	-	-	-	-
Equal instalments of principal	-	-	-	-	-	-	-
	<u>28.2</u>	<u>-</u>	<u>-</u>	<u>49.9</u>	<u>14.0</u>	<u>92.1</u> (2.1%)	<u>92.8</u> (1.7%)
Variable rate loans							
new loans-							
Maturity	88.8	41.1	-	-	-	129.9	35.7
Equal instalments of principal	-	-	-	-	-	-	-
	<u>88.8</u>	<u>41.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129.9</u> (2.9%)	<u>35.7</u> (0.7%)
Variable rate loans							
converted loans-							
Maturity	849.5	118.0	-	-	-	967.5	276.7
Equal instalments of principal	-	-	-	-	-	-	7.0
	<u>849.5</u>	<u>118.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>967.5</u> (21.8%)	<u>283.7</u> (5.3%)
All loans							
Maturity	1,149.9	198.7	39.2	2,907.1	14.0	4,308.9 (97.0%)	5,249.5 (98.6%)
Annuity	8.3	1.0	1.6	22.1	-	33.0 (0.7%)	6.7 (0.1%)
Equal instalments of principal	13.2	2.8	0.3	84.1	-	100.4 (2.3%)	69.0 (1.3%)
	<u>1,171.4</u>	<u>202.5</u>	<u>41.1</u>	<u>3,013.3</u>	<u>14.0</u>	<u>4,442.3</u>	<u>5,325.2</u>

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 18 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, are based on the cost of Government borrowing. New variable rate loans are determined daily by reference to a formula based on the 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 applicable at the time the loan was agreed:

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 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.

Tables showing all the rates of interest in force during the year are available on application to the Board.

Repayments

During the year the Board received repayments of principal amounting to £4,566.8 million, including £1,059.6 million for conversions, and interest payments of £3,684.2 million.

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 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 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, £2,123.6 million (£2,063.4 million in 2000-01) represented loans repaid before they were due, which included £570.4 million (£840 million in 2000-01) prematurely repaid by authorities using additional sums to restructure or, after 6 December, refinance their debt portfolios. Nine authorities repaid variable rate loans prematurely, redeeming 16 loans totalling £53.1million, compared to last year's figure of 19 loans and £56.3 million.

Premiums of £266.8 million were paid during the year and discounts of £38.5 million were allowed; these amounts are reflected 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 280 and these were replaced by 127 variable rate loans. Thirty-six variable rate loans were replaced by 12 fixed rate loans.

Of the £1,059.6 million converted, replacement of fixed rate loans amounted to £967.5 million and, on these, premiums of £29.5 million were paid and discounts of £53.4 million were allowed; these sums are reflected in the total of interest received. The replacement of variable rate loans amounted to £92.1 million and attracted premiums totalling £295; the discounts allowed amounted to £211,070.

Payment by direct debit

Two hundred and seventy four (82%) of the principal authorities and 771 (69%) other borrowers made scheduled repayments using the Board's Direct Debit facility.

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 2002. All the overdue payments as shown in table 1 on pages 2–3 were settled early in 2002-03.

Amalgamation of Repayment Dates

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. Three authorities took advantage of the scheme during 2001-02.

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. No authorities took advantage of the scheme during 2001-02.

Transfer 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 amounting to £179 million in respect of 128 loans.

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 loan with a variable rate loan, or *vice versa*, was £70.

Organisational Arrangements for Government Debt and Asset Management

Since 1980, the offices of the Board have been part of the National Investment and Loans Office (NILO), alongside the National Debt Office and the Office of HM Paymaster General. As part of an examination of the efficiency and effectiveness of the Government's cash and debt activities, HM Treasury established two working groups in August 2001. One of these looked at the management of the Government's debt and assets. Its recommendations to Treasury Ministers were announced in a Parliamentary Question on 25 March 2002, the text of which is at Appendix D. The outcome is that the Board will become part of the UK Debt Management Office (DMO) with effect from 1 July 2002. DMO is an Executive Agency of HM Treasury and was established on 1 April 1998. It issues marketable government securities (gilt-edged stock and Treasury bills) and provides treasury services for the Government, including Exchequer cash management operations and investment of some central Government funds.

Merger with the DMO is not meant to change the operations of the PWLB, the service to local authorities or the role of the Commissioners, nor is any change in lending policy associated with the reorganisation. The legislation governing the role of the Commissioners will continue to apply. The immediate practical implication is that the offices of the Board will move to the DMO's offices on 1 July 2002.

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 2001-02 was £1million. Fees received during the year amounted to £1.2million, £0.5million less than in 2000-01.

The reduction was due to the decrease in the overall value of loan applications received by the Board.

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 2001-02 amounted to £0.2 million, is surrendered to the Consolidated Fund.

At 31 March 2002 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 2001-02.

Appendix C - lists the tables in this Report

Appendix D - Future organisational arrangements for government debt and asset management as announced to Parliament on 25 March 2002.

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

11 June 2002

Table 14: Appendix A

Year	Historical Summary of Lending							
	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 outstanding 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	5,325.2	47,169.5	5,629.3	4,049.6	4 7/8	7 1/2	66,816.5	70.6
2001-02	4,442.3	47,045.1	4,556.7	3,684.2	4 7/8	7 1/4	68,488.1	68.7

Notes:

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

* Not available

Appendix B

Circulars issued during 2001-02

No. 125	6 December 2001	Addition to the facility allowing the refinancing of small loans
No. 126	20 February 2002	Quota arrangements for 2002-03
No. 127	March 2002	Arrangements for lending to local authorities from 1 April 2002

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** Base lending rate and the three-month variable rates line graph
- 4** Fixed Lower rates: line graph
- 5** Monthly advances: bar graph
- 6** Analysis of lending
- 7** Advances at Lower and Higher rates of interest
- 8** Advances and conversions: pie graph
- 9** Average rate (%), 1997-98 - 2001-02: bar graph
- 10** Average period (years), 1997-98 - 2001-02: 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

Appendix D

Future organisational arrangements for government debt and asset management as announced to Parliament on 25 March 2002

In an answer to a Parliamentary Question about the Government's plans for the future arrangements for Government debt and asset management, Ruth Kelly MP, Economic Secretary to the Treasury, confirmed that the National Debt Office (NDO) and the Public Works Loans Board (PWLB) would be integrated with the UK Debt Management Office (DMO) with effect from 1 July 2002. At the same time the Office of HM Paymaster General (OPG) would be merged with HM Treasury.

The full text of Ruth Kelly's reply is given below.

Following a detailed review of the current arrangements and future requirements for government debt and asset management, the National Debt Office (NDO) and the Public Works Loans Board (PWLB) will be integrated with the UK Debt Management Office (DMO) with effect from 1 July. Both the NDO and the PWLB are part of the National Investment and Loans Office (NILO) and the relevant staff will be relocated to the DMO's offices. This reorganisation, whilst maintaining provision of existing services, is designed to deliver improved management of the central government balance sheet and to offer a more robust, flexible and innovative service to public sector clients.

At the same time the remaining part of NILO, the Office of HM Paymaster General (OPG), will be merged with the HM Treasury, whilst also maintaining the provision of its existing services. NILO will thereafter cease to exist.