



United Kingdom
Debt Management
Office

PWLB

Annual Report and Accounts

2022-2023

PWLB Annual Report and Accounts 2022–2023

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

Ordered by the House of Commons
to be printed on 22 June 2023



© **Crown Copyright 2023**

This publication is licensed under the terms of the Open Government Licence v.3.0 except where otherwise stated. To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/version/3

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/official-documents

Any enquiries regarding this publication should be sent to us at the United Kingdom Debt Management Office, The Minster Building, 21 Mincing Lane, London, EC3R 7AG.

ISBN 978-1-5286-4064-0

E02899702 06/23

Printed on paper containing 40% recycled fibre content minimum.

Printed in the UK by HH Associates Ltd. on behalf of the Controller of His Majesty's Stationery Office.

Contents

6	Performance report
7	Overview
14	Performance analysis
20	Accountability report
21	Corporate governance report
36	Parliamentary accountability and audit report
42	Accounts of the PWLB
56	Accounts Direction given by HM Treasury

Performance report

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

7 Overview

7 Accounting Officer's statement

8 Purpose and principal activities of the PWLB

11 Performance summary

14 Performance analysis



Overview

Accounting Officer's statement

During 2022-2023, the Public Works Loan Board function (PWLB) continued to provide a cost-effective lending service to local authorities, meeting their requirements in terms of the amount of financing and the timing and duration of their borrowing. The function and powers to lend are held by HM Treasury, which delegates responsibility for the operation of the reporting entity known as the PWLB lending facility to the Accounting Officer of the United Kingdom Debt Management Office (DMO) while retaining policy responsibility.

The PWLB advanced 494 new loans with a value of £7,886 million to local authorities in the year. The majority (£6,356 million) of these loans were maturity loans. The PWLB also offered £350 million of annuity and £1,180 million of equal instalments of principal loans; therefore providing a flexible range of lending alternatives to local authorities.

During the year the PWLB collected interest payments on more than 16,000 loans, which had a carrying value of £96,245 million at 31 March 2023. £3,171 million of interest income was generated on these PWLB loans, with more than 32,000 interest and loan repayments by borrowers.

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

In May 2022, HM Treasury updated its guidance for PWLB applicants to confirm that it would not typically advance new loans if there is a non-negligible risk that the newly advanced PWLB loan will not be repaid without future government support. It confirmed that HM Treasury works with departments across government to monitor financial risk in local authorities, and this ongoing monitoring will be considered alongside any other relevant factors when determining if a local authority is potentially at risk of non-repayment.

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

Sir Robert Stheeman

Accounting Officer

15 June 2023

Purpose and principal activities of the PWLB

This publication presents the Annual Report and Accounts of the PWLB function for the year ended 31 March 2023. The accounts have been prepared by the DMO under a direction issued by HM Treasury in accordance with Section 3(6) of the National Loans Act 1968 (the 1968 Act). In addition, the publication meets the duty of the Lords Commissioners of HM Treasury, under section 5(3) of the Public Works Loans Act 1875 (the 1875 Act), to report annually to Parliament.

The Report and Accounts show PWLB loans advanced by HM Treasury in the financial year and the repayments received from borrowers. The accounts do not show the resources that have been used to deliver the PWLB's functions, which are reported in the United Kingdom Debt Management Office Report and Accounts 2022-2023.

Background to the PWLB

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

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

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

Borrowers are local authorities (plus a small number of other eligible public bodies) requiring loans mainly for capital purposes. While HM Treasury is legally required before making a loan to satisfy itself that there is sufficient security for its repayment, loans to local

authorities are automatically secured by statute on the revenues of the authority, which removes the need for reference to specific revenues, assets or collateral.

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

Governance of the PWLB

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

HM Treasury also has relevant powers to issue PWLB loans to town and parish councils (in England) and town and community councils (in Wales). Applicants will need a borrowing approval from the Department for Levelling Up, Housing & Communities for which they should approach their County Association of Local Councils or, in the case of Welsh councils, the Welsh Government. HM Treasury, through the PWLB lending facility, also provides loans to drainage boards. Applicants for loans will need a loan consent from the Department for Environment, Food & Rural

Affairs. The approvals must be in place before loan applications can be made to the DMO on behalf of HM Treasury.

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

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

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

Statutory provisions for loans

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

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

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

Section 4(1) of the 1968 Act limits the aggregate amount that may be outstanding in respect of commitments entered into by HM Treasury through the PWLB lending facility. Section 300 of the Finance Act 2014 came into force on 1 December 2017 and set the limit in Section 4(1) of the 1968 Act to £85 billion together with a provision to change this limit (up or down) to a maximum of £95 billion as specified by HM

Treasury in an order made by statutory instrument and, on 8 October 2019, the Local Loans (Increase of Limit) Order 2019 duly increased this limit to £95 billion. HM Treasury has subsequently enacted via statutory instrument section 112 of the Finance Act 2020, on 12 May 2022, amending the National Loans Act 1968 to increase the overall PWLB lending limit from £95 billion to £115 billion.

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

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

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

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

Policy and lending arrangements

HM Treasury is able to issue PWLB loans to an authority up to the available capacity in its legal borrowing limit as determined under Part 1, Chapter 1 of the Local Government Act 2003. HM Treasury requires, as part of the loan application process set out in the PWLB Operational Circular, a statement of confirmation from the borrowing authority that the application

is within the relevant legislation and the authority's borrowing powers. Loans are automatically secured by statute on the revenues of the authority and HM Treasury will not refuse an application if satisfied that it conforms to the policy framework governing its lending arrangements. When local authorities borrow they must have regard to the Prudential Framework as set out by the Chartered Institute of Public Finance and Accountancy, and by the Department for Levelling Up, Housing & Communities, Scottish Government, or Welsh Government as applicable to ensure they are borrowing prudently. HM Treasury may refer to these bodies or seek further assurance from the local authority to satisfy itself about the conformity of a loan application.

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

In November 2020 HM Treasury set out revised lending terms for the PWLB and guidance to support local authorities to determine if a proposed project is an appropriate use of PWLB lending. The terms included a provision for HM Treasury to suspend the consideration of the loan application for further review if it considers that the application may fall outside HM Treasury's lending arrangements.

In August 2021 HM Treasury published updated guidance and announced changes to the terms and conditions for PWLB lending which included an increase in the turnaround time for a PWLB loan from two to five working days to give government sufficient time to review the capital plans submitted and ensure they are consistent with the PWLB's lending policy, whilst still enabling local authorities to secure quick access to finance. HM Treasury also set the minimum interest rate for PWLB loans at 0.01% and set a minimum late repayment fee of 0.1%.

In May 2022, HM Treasury updated the guidance to confirm that it would not typically advance new loans if there is a more than negligible risk that the newly advanced PWLB loan will not be repaid without future government support. It confirmed that HM Treasury works with departments across government to monitor financial risk in local authorities, and this ongoing monitoring will be considered alongside any other relevant factors when determining if a local authority is potentially at risk of non-repayment.

Lending on behalf of the UK Infrastructure Bank

The UK Infrastructure Bank is a government owned policy bank, providing infrastructure finance (in partnership with the private sector and local government) to increase infrastructure investment in the UK. Until the UK Infrastructure Bank is established in legislation however, it does not have the legal powers to lend directly to local authorities, although it is able to hold and manage loans. In the interim, the PWLB issues loans on behalf of the UK Infrastructure Bank. In 2022-2023, there were no loans issued by the PWLB on behalf of the UK Infrastructure Bank.

Future developments

The UK Infrastructure Bank was established in June 2021 and in its interim form it does not have the legal powers to lend directly to local authorities. Instead the UK Infrastructure Bank has made use of the existing PWLB mechanism for its lending to local authorities. The UK Infrastructure Bank Act 2023 finalises the set-up of the UK Infrastructure Bank and enables the establishment of its own lending mechanism, therefore removing the need to involve the PWLB.

In the Spring Budget 2023, HM Treasury announced the introduction of a new discounted PWLB policy margin to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing. The rate will be available for one year from June 2023 and be set at 0.4% below the Certainty Rate at which most local authorities usually borrow from the PWLB.

Performance summary

The PWLB earned interest income in the year of £3,171 million (2021-2022: £3,075 million). This comprised £3,178 million of contractual interest income (2021-2022: £3,069 million), and £7 million of net discount paid due to the premature repayment of loans (2021-2022: £6 million net premium received).

Year on year, the PWLB's interest income increased by £96 million. Contractual interest income increased by £109 million whilst net premiums received/discounts paid decreased by £13 million, year on year.

The PWLB advanced 494 new loans to borrowers with a value of £7,886 million (2021-2022: 675 loans with a value of £8,282 million).

The PWLB's borrowers prematurely repaid loans with a principal value of £185 million in 2022-2023 (2021-2022: £366 million).

At 31 March 2023, the PWLB held loan assets of £96,245 million (31 March 2022: £91,254 million), inclusive of accrued income receivable of £607 million (31 March 2022: £565 million). The PWLB also held a cash balance of £130 million (31 March 2022: £33 million) comprising monies in transition between the National Loans Fund and the PWLB's borrowers.

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

At 31 March 2023, the average period to maturity of fixed rate loans had decreased to 24.6 years (31 March 2022: 25.1 years). Also, there was a rise in the weighted average interest rate of the PWLB's loans outstanding at 31 March 2023 to 3.45% (31 March 2022: 3.42%).

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

Factors influencing financial performance

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

Key issues and risks

The key issues and risks facing the PWLB are considered in the governance statement on page 24 to 34.

Fees and charges

The fees charged to borrowers for each new PWLB loan as well as the administrative costs of the PWLB are accounted for within the DMO's overall budget, as agreed with HM Treasury. In 2022-2023, the DMO received fees of £2.8 million from the PWLB's borrowers in respect of new loans issued (2021-2022: £3.0 million).

Figure 1: Summary of transactions and balances outstanding

	In the year 2022-2023			Balances outstanding as at 31 March 2023		
	Loans advanced £m	Repayments of principal £m	Payments of interest £m	Principal due but not yet paid* £m	Principal outstanding £m	Interest due but not yet paid* £m
Loans secured on local revenue to:						
Local authorities in England						
County Councils	211	249	400	-	10,317	-
London Borough Councils	1,100	457	438	-	13,599	-
Metropolitan District Councils	577	324	524	-	15,076	-
Non-Metropolitan District Councils	2,631	910	788	-	27,451	-
Others	2,520	446	381	-	13,027	-
	7,039	2,386	2,531	-	79,470	-
Local authorities in Scotland						
Unitary Councils	618	409	400	-	11,150	-
Others	-	14	12	-	167	-
	618	423	412	-	11,317	-
Local authorities in Wales						
Unitary Councils	213	118	191	-	4,725	-
Others	16	9	3	-	125	-
	229	127	194	-	4,850	-
Total loans on local revenues	7,886	2,936	3,137	-	95,637	-

	In the year 2022-2023			Balances outstanding as at 31 March 2023		
	Loans advanced £m	Repayments of principal £m	Payments of interest £m	Principal due but not yet paid* £m	Principal outstanding £m	Interest due but not yet paid* £m
Loans secured on property to harbour authorities						
England	-	-	-	-	-	-
Scotland	-	-	-	-	1	-
Wales	-	-	-	-	-	-
Total loans on property	-	-	-	-	1	-
Total loans on local revenues and property	7,886	2,936	3,137	-	95,638	-

* There were less than £1 million of overdue loan repayments at 31 March 2023. All overdue loan repayments at 31 March 2023 have since been paid.

The net present value of all future contractual cash flows for each loan was £81,090 million at 31 March 2023. These cash flows are discounted at the PWLB's new loan interest rates at 31 March 2023.

Performance analysis

Applications for loans

During the year, the PWLB received applications for loans resulting in 494 new loans being advanced (2021-2022: 675 loans). These new loans were provided to 189 different authorities (2021-2022: 229 authorities).

Review by type of loan and borrower

Figure 2 shows loan advances made by the PWLB in 2022-2023 by type of loan and type of borrower. The figure highlights the preference for fixed rate loans during the year, such that £7,711 million of fixed rate loans were advanced and £175 million of variable rate loans were advanced.

Figure 2: Loans advanced by type of loan and borrower

	Fixed rate £m	Variable rate £m	Total £m
Local authorities in England			
County Councils	211	-	211
London Borough Councils	1,100	-	1,100
Metropolitan District Councils	577	-	577
Non-Metropolitan District Councils	2,631	-	2,631
Others	2,345	175	2,520
	6,864	175	7,039
Local authorities in Scotland			
Unitary Councils	618	-	618
Others	-	-	-
	618	-	618
Local authorities in Wales			
Unitary Councils	213	-	213
Others	16	-	16
	229	-	229
	7,711	175	7,886

Types of loans, periods, rates and incidence of drawings

The monthly totals of loan advances by standard and concessionary rates, and the effect on the PWLB's loan portfolio, can be seen in Figure 3. £7,842 million of the PWLB's loan advances in 2022-2023 were made at the Certainty Rate, £10 million at the Local Infrastructure Rate, £12 million at the Capitalisation Rate and £22 million at the Standard rate. The loan principal balance outstanding to the PWLB at 31 March 2023 was £95,638 million (31 March 2022: £90,689 million).

The term till maturity of advances for fixed rate loans can be seen in Figure 4. The figure highlights the preference by borrowers for long-term loans, with £2,765 million (35%) of loan advances being for longer than 40 years. The weighted average term till maturity for loans advanced was 22.7 years in 2022-2023.

Fixed rate loans with a value of £514 million (2021-

2022: £2,746 million), or 7% of all loan advances, were taken for the maximum period of 50 years. Fixed rate loans with a value of £1,176 million (2021-2022: £259 million), or 15% of all loan advances, were taken for the minimum period of only one year.

The demand for fixed and variable rate loans over the previous 10 years, and their effect on the PWLB's loan portfolio, is demonstrated in Figure 5. In 2022-2023, the PWLB advanced £7,711 million of fixed rate loans and £175 million of variable rate loans. Over the previous 9 years, the PWLB had advanced £45,983 million of fixed rate loans and £741 million of variable rate loans (2% of the total).

Figure 6 demonstrates the continuing popularity of maturity loans, which constituted £6,356 million (81%) of loans advanced in 2022-2023.

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

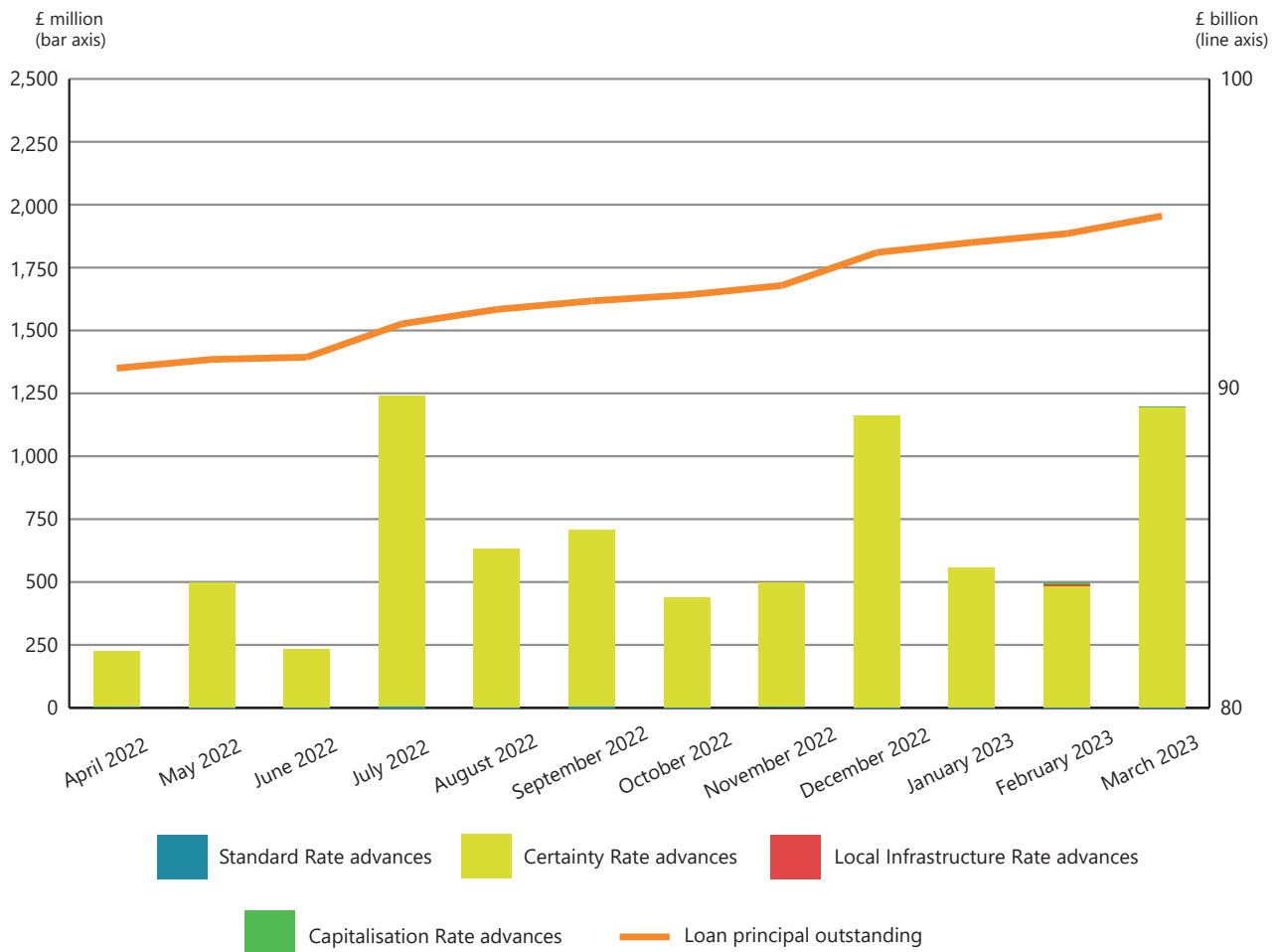


Figure 4: Term till maturity of fixed rate loans advanced in the year

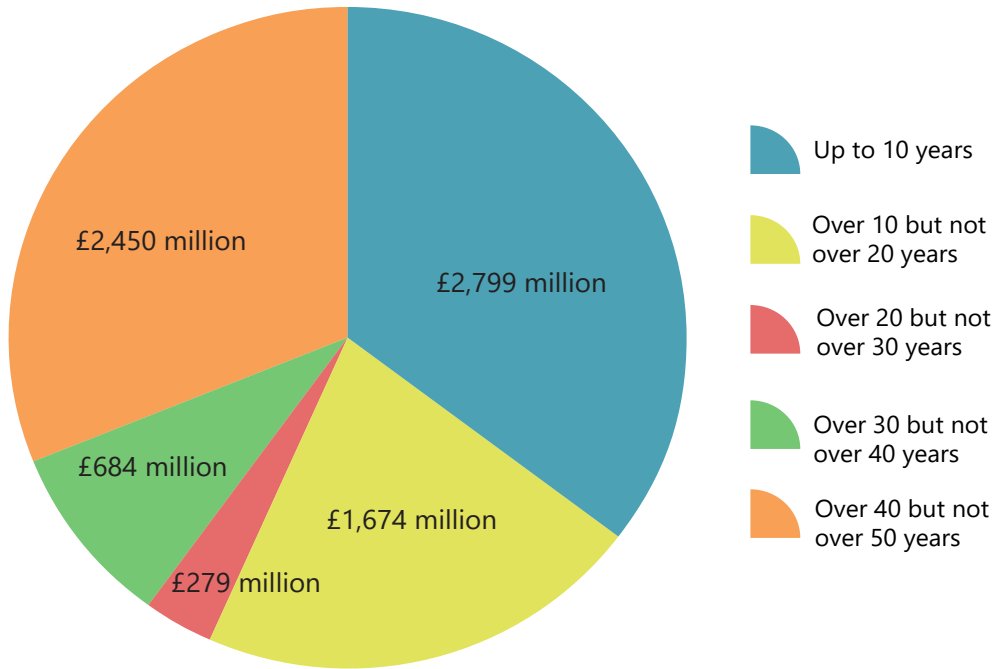


Figure 5: Loan principal outstanding and advanced, year by year

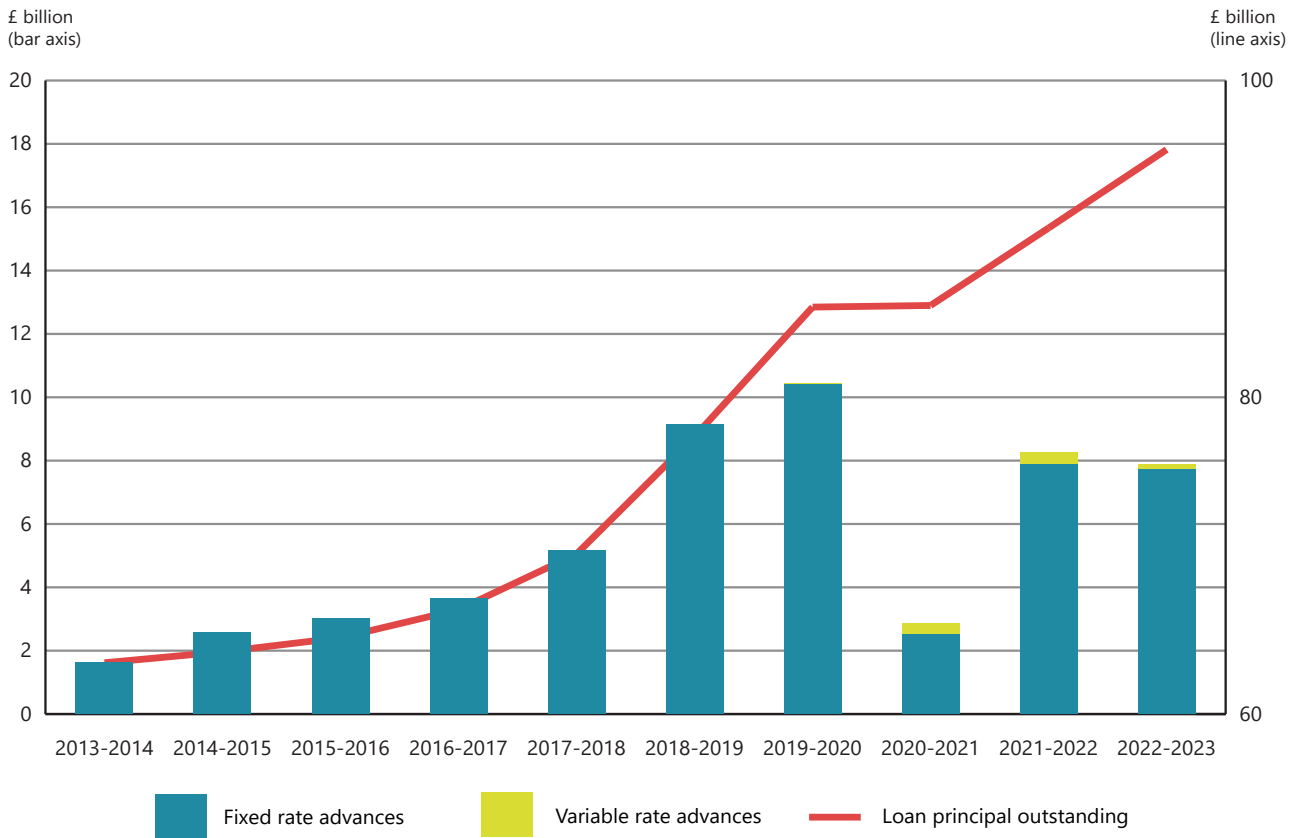


Figure 6: Loans advanced in the year, by type and by term till maturity

	Period of payment					Total £m
	Up to 10 years	Over 10 but not over 20 years	Over 20 but not over 30 years	Over 30 but not over 40 years	Over 40 but not over 50 years	
	£m	£m	£m	£m	£m	
Method of Repayment						
Fixed rate loans						
Maturity	2,622	454	76	662	2,367	6,181
Annuity	2	198	59	15	76	350
Equal instalments of principal	175	847	144	7	7	1,180
	2,799	1,499	279	684	2,450	7,711
Variable rate loans						
Maturity	-	175	-	-	-	175
Equal instalments of principal	-	-	-	-	-	-
	-	175	-	-	-	175
All loans						
Maturity	2,622	629	76	662	2,367	6,356
Annuity	2	198	59	15	76	350
Equal instalments of principal	175	847	144	7	7	1,180
	2,799	1,674	279	684	2,450	7,886

Scheduled and premature repayments

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

Authorities may, at the PWLB's discretion, repay a loan prematurely. In the case of a premature

repayment, the authority will repay the net present value of the future contractual cash flows, discounted at the PWLB's premature repayment rates, resulting in a discount or premium according to whether the premature repayment rate at the time is higher or lower than the loan rate.

Figure 7 summarises premature repayments in 2022-2023.

Figure 7: Premature repayments

	Number of loans repaid	Principal repaid £m	Premium received £m	Discount paid £m
Fixed rate loans	84	73	1	8
Variable rate loans	3	112	-	-
	87	185	1	8

Premature repayments of £185 million were made during the year (2021-2022: £366 million), compared to new loan advances of £7,886 million (2021-2022: £8,282 million).

The value of loan principal outstanding to borrowers rose by 5% year-on-year (2021-2022: 6% rise), to £95,638 million from £90,689 million at 31 March 2022.

Repayments in arrears

There were less than £1 million of overdue loan repayments at 31 March 2023 (31 March 2022: less than £1 million). All overdue loan repayments at 31 March 2023 have since been paid.

Rates of interest

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

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

The fixed PWLB lending rate for four different maturities as well as the three month variable lending rate for 2022-2023 are shown in Figure 8.

Concessionary rates

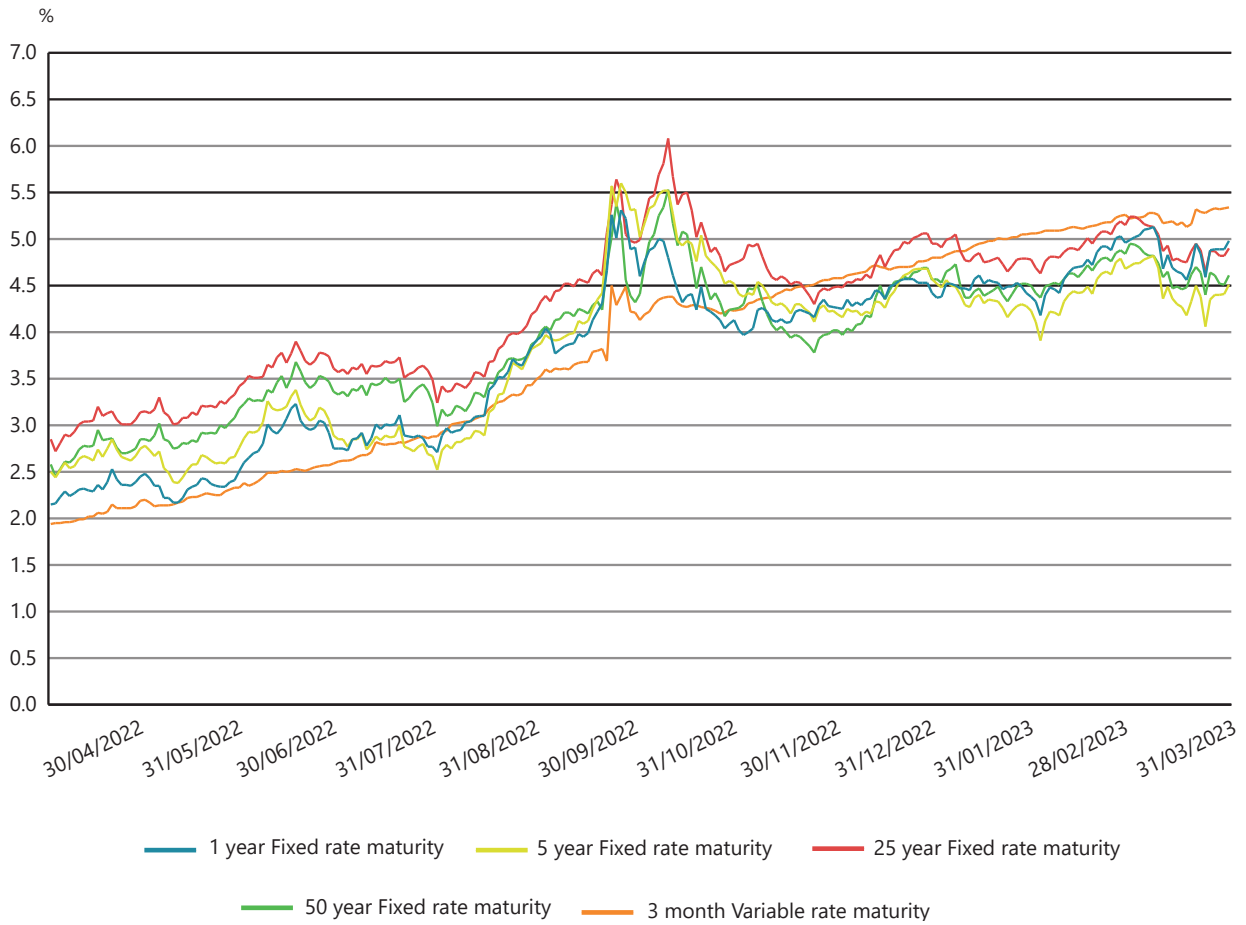
The PWLB offers loans at rates below the standard rate in accordance with certain schemes determined by HM Treasury.

Certainty Rate: From 1 November 2012, the government reduced by 0.2% the rates on loans from the PWLB to local authorities who provided certain information on their plans for long-term borrowing and associated capital spending. Since 26 November 2020, principal local authorities have been required to submit a Certainty Rate return, including a high-level description of their capital spending and financing plans for the following three years, as a condition of accessing the PWLB. As a result, the Certainty Rate is now the default rate at which principal local authorities borrow.

Local Infrastructure Rate: In April 2018, HM Treasury published the arrangements for access to the Local Infrastructure Rate, which allows local authorities to borrow at a rate of 0.6% above respective gilt yields to support certain qualifying infrastructure projects. The government made available up to £1 billion of lending at this rate to English authorities over two bidding rounds during 2018-2019 and a further £1 billion in a single bidding round in 2020. Corresponding shares were made available to local authorities in Scotland and Wales. Local authorities have three years to take out their loans from the PWLB, with a maximum term of 50 years.

Capitalisation Rate: In 2020-2021 the Ministry of Housing, Communities & Local Government (now the Department for Levelling Up, Housing & Communities) provided a small number of local authorities with capitalisation directions allowing them to borrow for revenue spending. A condition of these directions was that local authorities must borrow from the PWLB and that borrowing must be at a 1% higher rate (the 'Capitalisation Rate') than the relevant Standard or Certainty Rate.

Figure 8: Interest rates by term till maturity and type of loan*



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

Transfers of debt

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

PWLB loans issued to local authorities on behalf of the UK Infrastructure Bank are novated from the PWLB to the UK Infrastructure Bank on the same day that they were issued by the PWLB and at the same value.

Service performance

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

Sir Robert Stheeman
Accounting Officer
15 June 2023

Accountability report

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

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

21 Corporate governance report

21 Directors' report

22 Statement of Accounting Officer's responsibilities

24 Governance statement

36 Parliamentary accountability and audit report



Corporate governance report

Directors' report

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

Name of PWLB Accounting Officer and DMO Advisory Board

The members of the DMO's Advisory Board are considered to be the directors of the PWLB. The authority and responsibilities of the Advisory Board are set out in the governance statement on page 24 to 34.

The DMO established an Advisory Board, replacing the previous Managing Board, with effect from 1 June 2022.

- **Dame Sue Owen** (from 13 June 2022)
Non-Executive Chair
- **Sir Robert Stheeman**
PWLB Accounting Officer and Chief Executive of the DMO
- **Jo Whelan**
Deputy Chief Executive and Co-Head of Policy and Markets of the DMO
- **Jim Juffs**
Chief Operating Officer of the DMO
- **Jessica Pulay**
Co-Head of Policy and Markets of the DMO
- **Tom Josephs** (until 13 June 2022)
Non-executive HM Treasury representative
- **Ruth Curtice** (from 15 September 2022)
Non-executive HM Treasury representative
- **Paul Fisher**
Non-executive director
- **Paul Richards** (until 30 April 2023)
Non-executive director

Martin Egan joined the DMO's Advisory Board as a non-executive director from 2 May 2023.

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

This section has been audited.

Directors' conflicts of interest

In 2022-2023, no material conflicts of interest were declared by the DMO's Advisory Board members.

Reporting of personal data related incidents

The PWLB had no protected personal data related incidents during 2022-2023.

Statement of Accounting Officer's responsibilities

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

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

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

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

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

Disclosure to auditors

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

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

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



TELEPHONE



Trafalgar Square
Parliament
London

Governance statement

Scope of responsibility

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

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

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

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

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

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

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

Advisory Board

In June 2021, HMT published a Tailored Review of the DMO. Tailored Reviews aim to assess, amongst other things, an organisation's form and function, its control and governance arrangements, and its relationship with its sponsoring department and other relevant organisations. Overall the review concluded that the DMO is a highly successful and effective organisation.

The review made a series of recommendations regarding the DMO's governance arrangements. In particular, the review recommended that, in terms of its status, the DMO should be regarded as a 'Model 2' Executive Agency as defined in the Cabinet Office guidance. A Model 2 Executive Agency is one which is deemed by the sponsor department to require a greater level of independence from its home department in order to carry out its functions effectively, or one that is considered by its home department to be of sufficient size and importance to require independent assurance. On this basis, the review recommended that the DMO's governance arrangements should be amended accordingly, including the creation of an Advisory Board to replace the current Managing Board and, as a consequence of this, to introduce a Non-Executive Chair (NEC) to the Board membership. The process to recruit a NEC was undertaken in the second half of the year and successfully completed as announced on 4 May 2022.

The inaugural Advisory Board was held on 13 June 2022.

The DMO Accounting Officer was supported during 2022-2023 by the DMO Managing Board and then the Advisory Board (the Board) which, in addition to the DMO Accounting Officer, is comprised of:

- Dame Sue Owen (from 13 June 2022)
Non-executive Chair - Dame Sue was a civil servant for 30 years, including 14 years at HM Treasury. Amongst other things, she worked on fiscal policy and debt management policy at HM Treasury. Dame Sue has previously held senior roles at the Foreign and Commonwealth Office, Department for International Development and Department for Work and Pensions. Most recently she served as the Permanent Secretary at the Department for Digital, Culture Media and Sport, from 2013 to 2019. She has other current roles, including non-executive director at Pantheon International plc and Serco plc.
- Jo Whelan
Deputy Chief Executive and Co-Head of Policy and Markets;
- Jim Juffs
Chief Operating Officer;
- Jessica Pulay
Co-Head of Policy and Markets;
- Tom Josephs (until 13 June 2022)
Non-executive HM Treasury representative;
- Ruth Curtice (from 15 September 2022)
Non-executive HM Treasury representative;
- Paul Fisher
Non-executive director - During a 26-year career at the Bank of England, Paul Fisher served as a member of the Monetary Policy Committee from 2009 to 2014, the interim Financial Policy Committee from 2011 to 2013 and the PRA Board from 2015 to 2016. He has a number of current roles including Chair of the London Bullion Market Association;
- Paul Richards
Non-executive director - During a 29-year career at Bank of America Merrill Lynch, Paul was MD of business in fixed income trading, Debt Capital Markets and Corporate Banking across Europe, the

Americas and Asia Pacific. Following his retirement from banking, he spent 18 months as a senior consultant to the FCA. He is currently chairman of Insignis, a FinTech company he launched in 2015.

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

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

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

During 2021-2022, in line with good practice, the Board's effectiveness was reviewed through the Tailored Review. The previous Terms of Reference for the Managing Board were supplanted by a new Terms of Reference for the Advisory Board in 2022-2023.

2022-2023 Board activities

Board meetings were held regularly throughout 2022-2023 and covered regular agenda items, including risk management and staffing.

Board, as well as Audit and Risk Committee, attendance is outlined in the following table:

1 April 2022 - 12 June 2022	Managing Board		Audit and Risk Committee	
	Possible	Actual		
Sir Robert Stheeman	1	1		
Jo Whelan	1	1		
Jim Juffs	1	1		
Jessica Pulay	1	1		
Tom Josephs	1	1		
Paul Fisher	1	1	1	1
Paul Richards	1	1	1	1
Rodney Norman	n/a	n/a	1	1

		Advisory Board			
13 June 2022 - 31 March 2023		Possible	Actual		
Dame Sue Owen		6	6		
Sir Robert Stheeman		6	6		
Jo Whelan		6	6		
Jim Juffs		6	6		
Jessica Pulay		6	6		
Tom Josephs		1	1		
Ruth Curtice		4	4		
Paul Fisher		6	6	3	3
Paul Richards		6	6	3	2
Rodney Norman		n/a	n/a	3	3

Audit and Risk Committee

The Accounting Officer was supported during 2022-2023 by the Audit and Risk Committee on matters relating to risk, internal control and governance. The Audit and Risk Committee covers the activities of the DMO, Debt Management Account, Commissioners for the Reduction of the National Debt and PWLB lending facility. The members of the Audit and Risk Committee during 2022-2023 were:

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

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

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

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

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

- Anti-money laundering process review;
- IT and cyber security risks;
- Review of past audit reports and management actions taken;
- Application development and testing controls;
- Fraud risk management;
- User access rights and permissions;
- Review of payment systems and continuity arrangements;
- Relationship management with strategic partners and key suppliers;
- Sustainability review of the contracts management framework;
- High level risks and issues/principal risks and uncertainties;
- Impact of Covid risk;
- Development of risk assurance maps;
- Whistleblowing reporting process;
- Risk management review.

The Audit and Risk Committee covers a regular programme of agenda items, together with other

current topics, and met four times during the year. The Accounting Officer has also been informed by the following operational committees throughout the period under review.

Other committees

Business Delivery Committee

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross-functional body, resolving emerging issues in a timely way, and agreeing priorities to ensure the plan stays on track. The most significant initiatives monitored by the BDC during the year were the upgrade of the website, a new HR system and improving the DMO security profile.

The Business Delivery Committee met regularly (typically weekly) throughout 2022-2023.

Risk Committees

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

Risk management and internal control

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

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

reasonable assurance against failure to achieve aims and objectives.

The risk and control framework

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

■ First line of defence:

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

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

The fixed interest rates offered by the PWLB lending facility are determined by HM Treasury in accordance with section 5 of the National Loans Act 1968. In practice the rates are calculated each day using data from one of the DMO's business critical models. The DMO has put in place a robust quality assurance framework for all the models that it uses which extends to cover validation of results and any changes in approach. An independent review of the business critical models in May 2022 provided assurance on the modelling and identified recommendations for further enhancements that have now been implemented.

■ Second line of defence:

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

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

Operational Risk Committee

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

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The ORC has focused this year on business continuity, procurement and contracts management, and the release management process. The ORC met eight times during 2022-2023.

Controls Group

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

The Controls Group has advised the DMO Accounting Officer, the Board and senior management on

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

During the year the Controls Group reviewed key project change proposals. Other topics reviewed included business continuity assurance, electronic trading platforms, payment enhancements and security.

Risk Management Unit

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

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

The identification, monitoring and mitigation of operational risk is facilitated by the RMU via quarterly consultations with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing, are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls.

■ Third line of defence:

The DMO's Internal Audit function is the third line of defence and provides the DMO's Accounting Officer with independent and objective assurance on the overall effectiveness of the system of internal control.

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

Risk policies and procedures

The DMO's risk policies reflect the high standards and robust requirements which determine the way risks are managed and controlled. The DMO's Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2022-2023, this included policies relating to health & safety, procurement and contracts management, business continuity, remote access, clear desk, misconduct escalation, anti-bribery and anti-fraud.

Staff are required to confirm that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistleblowing, anti-fraud, anti-money laundering and information security. The DMO ensures that this exercise is undertaken on an annual basis which helps

staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

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

During 2022-2023 no concerns were raised by staff under the DMO's whistleblowing policy.

Key developments

■ COVID-19

The government's plan for removing the remaining legal restrictions while protecting people most vulnerable to COVID-19 and maintaining resilience was set out in the "COVID-19 Response: Living with COVID-19" guidance first published in February 2022 and later revised in May 2022.

The COVID-19 risk assessment was transitioned into the health & safety risk assessment, with suitable controls maintained, where appropriate.

■ Ukrainian conflict

Further to the Russian invasion of Ukraine, the DMO closely monitored actual and potential effects on activities, markets, counterparties and suppliers.

The DMO continued to work with partners across government to ensure all necessary steps were taken to maintain cyber security defences and also assurances were received from some strategic partners regarding their own arrangements, with details of the assurances put in place to mitigate against any disruption or impact. Internal assessments considered potential accounting or disclosure impacts and any effects through legal and regularity changes.

Risk profile

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

Principal risks and uncertainties	Mitigation and management
IT systems and infrastructure	
<p>The PWLB lending facility relies on a number of IT systems to conduct its operations. In particular, certain systems are central to the PWLB lending facility being able to advance loans and manage repayments in an effective and timely way.</p>	<p>During the year the DMO has progressed initiatives to further strengthen the resilience and security of its IT network and infrastructure. Strategic roadmap priorities were reviewed and the DMO carried out an internal health-check. The DMO has in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.</p> <p>Arrangements to support critical operations were in place throughout the year with a core team in the office, support teams working from the disaster recovery site and staff working from home. Assessment of business continuity needs is also a specific requirement for new projects and major business initiatives.</p>
IT and data security	
<p>The DMO could be the subject of an external attack on its IT systems and infrastructure. Through its activities, the DMO gathers, disseminates and maintains sensitive information, including market sensitive information. The DMO seeks to ensure the highest standards of data protection and information management.</p>	<p>The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. IT and data security risks continued to be a specific area of focus in 2022-2023 and the DMO's IT team have been enhancing the detective, protective and recovery security controls.</p> <p>Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risks.</p> <p>The DMO has put in place several layers of defensive controls against external and internal attacks.</p>

Principal risks and uncertainties	Mitigation and management
-----------------------------------	---------------------------

Reliance on third parties	
----------------------------------	--

A number of the operational systems and services on which the PWLB lending facility relies are provided or supported by third party suppliers.

To mitigate the risk of failure of a key third party supplier the DMO undertakes regular corporate risk assessments of each key supplier to assess a range of factors including its financial strength and operational capacity, including the reliance on sub-contractors. The DMO has dedicated contract owners who meet regularly with key suppliers and monitor performance against the agreed Service Level Agreements, where appropriate.

The Procurement Manager and the Vendor Management Group have been working to embed consistent standards of supplier management across account managers by improving visibility of key contracts and continually sharing best practice. The DMO has introduced enhanced monitoring for critical suppliers (i.e. strategic partners) that focuses on risk and strategic aspects. Scrutinised areas include inherent risks, scenario analysis, assessment of supply chain risks including fourth parties, monitoring and assessing residual risks, and mitigation planning. External consultancy work assisted with the approach.

The DMO sought assurance that its key suppliers and strategic partners follow National Cyber Security Centre (NCSC) guidance on cyber-security.

Transaction processing	
-------------------------------	--

The PWLB lending facility relies on its operational processes to successfully advance loans and manage repayments on a daily basis. Reliance on the accurate execution of processes exposes the PWLB lending facility to operational risk arising from process breakdowns and human error.

A key component of the DMO's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls on individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities.

All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The RMU conduct regular control and compliance testing, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with the relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.

Principal risks and uncertainties	Mitigation and management
-----------------------------------	---------------------------

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

The continued focus has been on enhanced compliance monitoring over transaction processing, to provide assurance over controls standards during remote working. During the year, a review of the transaction processing controls produced recommendations for enhancements. The implemented changes have resulted in controls being more robust and processes streamlined.

People risk

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

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

The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector who have historically offered higher remuneration packages that are not subject to public sector remuneration policies.

The DMO follows the Civil Service Commission’s recruitment principles and selection process to ensure vacancies are filled on merit on the basis of fair and open competition.

The DMO has a formal performance appraisal process and all staff are given clear and achievable objectives.

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

Staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure.

Principal risks and uncertainties**Mitigation and management**

Salaries are benchmarked annually to equivalent private sector pay levels in order to keep management aware of any significant disparities that are developing. Challenges with recruitment and retention were again identified this year and were reviewed by the Advisory Board. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one-off non-consolidated performance related awards. Any awards are assessed annually by the DMO Performance Review Team. They are determined by individual performance and criteria associated with the DMO's performance management process, which are also aligned to the policy for public sector pay.

A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives. Staff Council was consulted to discuss the future hybrid working arrangements. This has been an effective conduit for wider communication and consultation with all staff.

On an annual basis all DMO staff are given the opportunity to take part in the Civil Service People survey. Any issues raised via this route, with suggested mitigating action if required, are considered by the Accounting Officer and the Board.

The organisation has placed greater emphasis on undertaking key person risk analysis for succession planning.

The DMO is a disability confident employer.

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of the PWLB lending facility's aims and objectives has been in place throughout 2022-2023. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and executive managers within the DMO who have been delegated responsibility for the development and maintenance of the internal control framework,

and comments made by the external auditors in their management letter and other reports.

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

In 2022-2023, no ministerial directions were given and no material conflicts of interest have been declared by the Board or Audit and Risk Committee members in the Register of Interests.

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

Sir Robert Stheeman

Accounting Officer

15 June 2023



Parliamentary accountability and audit report

Regularity of expenditure

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

The above statement has been audited.

Fees and charges

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

The above statement has been audited.

Sir Robert Stheeman

Accounting Officer

15 June 2023

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

Opinion on financial statements

I certify that I have audited the financial statements of the PWLB lending facility for the year ended 31 March 2023 under the National Loans Act 1968.

The financial statements comprise the PWLB lending facility's:

- Statement of financial position as at 31 March 2023;
- Statement of comprehensive income and Statement of cash flows for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted International Accounting Standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the PWLB lending facility's affairs as at 31 March 2023 and its surplus for the year then ended; and
- have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 Audit of Financial Statements

and Regularity of Public Sector Bodies in the United Kingdom (2022). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

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

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

Conclusions relating to going concern

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

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

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

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

Other Information

The other information comprises the information included in the Annual Report, but does not include the financial statements nor my auditor's certificate. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

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

Matters on which I report by exception

In the light of the knowledge and understanding of the PWLB lending facility and their environment obtained in the course of the audit, I have not

identified material misstatements in the Performance and Accountability Reports.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

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

Responsibilities of the Accounting Officer for the financial statements

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

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the PWLB lending facility from whom the auditor determines it necessary to obtain audit evidence; and
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury made under the National Loans Act 1968;

- ensuring that the annual report is prepared in accordance with HM Treasury directions made under the National Loans Act 1968;
- assessing the PWLB lending facility's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the PWLB lending facility will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance

including the design of the PWLB Lending Facility's accounting policies;

- inquired of management, the PWLB lending facility's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the PWLB lending facility's policies and procedures on:
 - identifying, evaluating and complying with laws and regulations;
 - detecting and responding to the risks of fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the PWLB lending facility's controls relating to the PWLB lending facility's compliance with the National Loans Act 1968 and Managing Public Money;
- inquired of management, the PWLB lending facility's head of internal audit and those charged with governance whether:
 - they were aware of any instances of non-compliance with laws and regulations;
 - they had knowledge of any actual, suspected, or alleged fraud;
- discussed with the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the PWLB lending facility for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the PWLB lending facility's framework of authority and other legal and regulatory frameworks in which the PWLB lending facility operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the PWLB lending facility. The key laws and regulations I considered in this context included the National Loans Act 1968 and Managing Public Money.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit and Risk Committee and legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports; and
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

I communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members and remained alert to

any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

Other auditor's responsibilities

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies

Comptroller and Auditor General

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

19 June 2023



Accounts of the PWLB



Statement of comprehensive income

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Interest income	2, 3	3,171	3,075
Total income		3,171	3,075
Interest payable to National Loans Fund		(3,171)	(3,075)
Surplus for the year		-	-

The notes on pages 46 to 54 form part of these accounts.

Statement of financial position

As at 31 March 2023

	Note	2023 £m	2022 £m
Assets			
Cash and balances at bank		130	33
Loans	4, 5	96,245	91,254
Total assets		96,375	91,287
Liabilities			
Amounts owed to National Loans Fund	7	96,375	91,287
Total liabilities		96,375	91,287

The notes on pages 46 to 54 form part of these accounts.

Sir Robert Stheeman

Accounting Officer

15 June 2023

Statement of cash flows

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Net cash used in operating activities	8	(1,820)	(1,830)
Financing activities			
Interest paid to National Loans Fund		(3,126)	(3,260)
Increase in loan principal outstanding to National Loans Fund		5,043	4,742
Net cash from financing activities		1,917	1,482
Increase / (decrease) in cash		97	(348)
Cash at the beginning of the year		33	381
Cash at the end of the year		130	33

The notes on pages 46 to 54 form part of these accounts.

Notes to the accounts for the year ended 31 March 2023

1 Accounting policies

(i) Basis of preparation

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

In particular, the following standards have been applied:

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

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

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

apply these revisions to IAS 1 in 2024-2025. The application of these revisions, which the IASB has delayed by two years, and which affect only the presentation of liabilities in the statement of financial position and relate to a clarification of the classification of current and non-current liabilities, are not expected to materially alter the presentation of the financial statements of the PWLB.

- This has been revised as part of the IASB's 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)'. Application is required for reporting periods beginning on or after 1 January 2023. The PWLB expects to apply these revisions to IAS 1 in 2023-2024. The application of these revisions, which help preparers to decide which accounting policies to disclose in their financial statements, are not expected to materially alter the presentation of the financial statements of the PWLB.
- This has been revised as part of the IASB's 'Non-current Liabilities with Covenants (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2024. The PWLB expects to apply these revisions to IAS 1 in 2024-2025. The application of these revisions, which clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability, are not expected to materially alter the presentation of the financial statements of the PWLB.
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which has been revised as part of the IASB's 'Definition of Accounting Estimates (Amendments to IAS 8)'. Application is required for reporting periods beginning on or after 1 January 2023. The PWLB expects to apply these revisions to IAS 8 in 2023-2024. The application of these revisions, which help entities to distinguish between accounting policies and accounting estimates, are not expected to materially alter the presentation of the financial statements of the PWLB.

(ii) Financial assets and income recognition

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

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

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

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

The fair value of loans outstanding, disclosed in note 5 to the accounts, is calculated as the aggregate net

present value of future cash flows on each individual loan. These future cash flows are discounted at the PWLB's new loan rates at 31 March 2023.

(iii) Financial liabilities

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

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

(iv) Statement of changes in equity

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

2 Interest income

	2023 £m	2022 £m
Contractual interest income for fixed rate loans	3,166	3,065
Contractual interest income for variable rate loans	12	4
(Discount) / premium on premature repayments	(7)	6
	3,171	3,075

3 Interest income by country

	2023 England £m	2023 Wales £m	2023 Scotland £m	2023 Total £m
Fixed rate loans	2,556	194	408	3,158
Variable rate loans	13	-	-	13
	2,569	194	408	3,171

	2022 England £m	2022 Wales £m	2022 Scotland £m	2022 Total £m
Fixed rate loans	2,467	194	410	3,071
Variable rate loans	4	-	-	4
	2,471	194	410	3,075

4 Loans

	2023 £m	2022 £m
Fixed rate loan principal	95,175	90,289
Variable rate loan principal	463	400
Loan principal outstanding	95,638	90,689
Accrued income on fixed rate loans	606	565
Accrued income on variable rate loans	1	-
Accrued income	607	565
Value of loans outstanding	96,245	91,254

5 Loan principal

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

	2023 Loan Principal	2023 Carrying Value	2023 Fair Value	2023 Weighted average interest rate
	£m	£m	£m	%
Fixed rate loans	95,175	95,781	80,627	3.44
Variable rate loans	463	464	463	4.97
	95,638	96,245	81,090	3.45

	2022 Loan Principal	2022 Carrying Value	2022 Fair Value	2022 Weighted average interest rate
	£m	£m	£m	%
Fixed rate loans	90,289	90,854	101,061	3.43
Variable rate loans	400	400	400	1.50
	90,689	91,254	101,461	3.42

The fair value is the net present value of all future contractual cash flows for each loan. These cash flows are discounted at the PWLB's new loan interest rates at 31 March 2023.

The weighted average period to maturity of fixed rate loans at 31 March 2023 was 24.6 years (31 March 2022: 25.1 years).

At 31 March 2023, £56 million of loans (31 March 2022: £43 million) had been confirmed, but not yet advanced.

At 31 March 2023, there were no loans which borrowers had confirmed their intention to prematurely repay (31 March 2022: none). Such repayments are not reflected in the statement of financial position until the cash has been repaid by the borrower.

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

	2023 Principal outstanding by period till maturity £m	2023 Principal outstanding by period of interest rate fix* £m	2022 Principal outstanding by period till maturity £m	2022 Principal outstanding by period of interest rate fix* £m
Up to 1 month / repayable on demand	160	448	139	539
More than 1 month but not more than 3 months	371	371	352	352
More than 3 months but not more than 1 year	3,206	3,381	2,242	2,242
More than 1 year but not more than 5 years	11,013	11,013	9,646	9,646
More than 5 years but not more than 10 years	12,760	12,297	12,071	11,671
More than 10 years but not more than 20 years	16,645	16,645	17,008	17,008
More than 20 years but not more than 30 years	12,787	12,787	10,168	10,168
More than 30 years but not more than 40 years	21,162	21,162	22,836	22,836
More than 40 years	17,534	17,534	16,227	16,227
	95,638	95,638	90,689	90,689

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

5c Loan principal outstanding - analysis by country

	2023 Principal outstanding £m	2022 Principal outstanding £m
England	79,470	74,817
Wales	4,850	4,748
Scotland	11,318	11,124
	95,638	90,689

6 New loans advanced, loans maturing and premature repayments of loan principal

	2023 £m	2022 £m
New loans advanced	7,886	8,282
Loans maturing	(2,752)	(3,024)
Loans prematurely repaid	(185)	(366)
Net increase in loan principal	4,949	4,892

7 Amounts owed to National Loans Fund

	2023 £m	2022 £m
Loan principal outstanding to borrowers	95,638	90,689
Accrued income on loans to borrowers	607	565
	96,245	91,254
Loan repayments not yet surrendered to National Loans Fund	130	33
	96,375	91,287

8 Reconciliation of operating income to net cash used in operating activities

	Note	2023 £m	2022 £m
Operating income	2	3,171	3,075
Increase in loan principal outstanding to customers	6	(4,949)	(4,892)
Increase in accrued income	4	(42)	(13)
Net cash used in operating activities		(1,820)	(1,830)

9 Risk management

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

Credit risk

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

Risk measurement

The credit risk exposures of the PWLB are shown below:

At 31 March 2023	Cash held at bank £m	Major local authorities £m	Parish councils and drainage boards £m	Harbour boards £m	Total £m
Cash and balances at bank	130	-	-	-	130
Loans outstanding to borrowers	-	95,984	260	1	96,245
Total	130	95,984	260	1	96,375

Loans confirmed but not advanced	-	55	1	-	56
----------------------------------	---	----	---	---	----

At 31 March 2022	Cash held at bank £m	Major local authorities £m	Parish councils and drainage boards £m	Harbour boards £m	Total £m
Cash and balances at bank	33	-	-	-	33
Loans outstanding to borrowers	-	91,001	252	1	91,254
Total	33	91,001	252	1	91,287

Loans confirmed but not advanced	-	41	2	-	43
----------------------------------	---	----	---	---	----

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

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

There were less than £1 million of overdue loan repayments at 31 March 2023 (31 March 2022: less than £1 million). All overdue loan repayments at 31 March 2023 have since been paid.

There were no renegotiated loans or assets considered impaired at 31 March 2023 (31 March 2022: no renegotiated loans or impaired assets).

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

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

The PWLB does not issue any financial guarantees.

Risk management

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

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

As stated on page 8, HM Treasury is legally required, before advancing a loan from the PWLB, to be satisfied that there is sufficient security for the loan's repayment. In dealing with applications, the DMO on behalf of HM Treasury will ask the local authority for assurances that the authority is acting properly and according to statute. The DMO and HM Treasury will rely on the answers to these questions. Loans are automatically secured by statute on the revenues of the authority and HM Treasury will not refuse an application if satisfied that it conforms to the policy framework governing the lending arrangements. When local authorities borrow, they must have regard to the Prudential Framework as set out by the Chartered Institute of Public Finance and Accountancy and by the Department for Levelling Up, Housing & Communities, the Scottish Government or Welsh

Assembly Government as applicable to ensure they are borrowing prudently. HM Treasury may refer to these bodies or seek further assurance from the local authority to satisfy itself about the conformity of a loan application.

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

Loans to harbour boards are secured on property and are made only with the provision of a guarantee from the local authority. In addition, the business plan is reviewed. No new loans were made to harbour boards in the period ended 31 March 2023 (31 March 2022: no loans).

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

Market risk

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

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

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

Liquidity risk

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

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

10 Related party transactions

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

The total amount owed by the PWLB to the National Loans fund at 31 March 2023 was £96,375 million.

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

11 Events after the reporting date

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



Accounts Direction



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

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

Vicky Rock

Interim Director, Public Spending Group
 HM Treasury
 2 March 2020

This publication is available in electronic form on the DMO website www.dmo.gov.uk.

All the DMO's publications and a wide range of data are available on its website.

Alternatively, the DMO can be contacted at:

United Kingdom Debt Management Office
The Minster Building
21 Mincing Lane
London
EC3R 7AG
United Kingdom

