

PUBLIC WORKS LOAN BOARD



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To the Chief Financial Officer
of local authorities in
England, Wales and Scotland

Circular No. 112

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QUOTAS FOR 1997-98

1. The Public Works Loan Commissioners have decided that the quota levels in respect of the financial year 1997-98 will be the same as those for 1996-97. The quota formula will continue to provide some incentive to local authorities to apply their set aside provisions to meet credit liabilities, in line with Government intentions.
2. The quota entitlement for each authority will therefore be:
 - (i) for authorities in England and Wales, the sum of

Basic and Supplementary Credit Approvals used in 1997-98
and
Repayments of principal due in 1997-98 on loans borrowed from the Board;
 - (ii) for authorities in Scotland, the sum of

Capital Consent Allocations used in 1997-98
and
Repayments of principal due in 1997-98 on loans borrowed from the Board
less
Scheduled debt amortisation.
3. Quota loans will be made available at one of two sets of interest rates, 'Lower' rates currently determined close to the cost of Government borrowing and 'Higher' rates currently determined close to but just below market rates.
 - (i) For authorities in England and Wales the 'Lower' rates will apply to that part of the quota remaining after deduction of an authority's provision to meet credit liabilities unapplied at 31 March 1997 (including those used internally but not declared as applied).
 - (ii) For authorities in Scotland the 'Lower' rates will apply to that part of the quota remaining after deduction of an authority's capital receipts unapplied at 31 March 1997.
4. The quota for 1997-98 will be reduced to the extent, if any, that an overdrawing of quota has taken place in a preceding year and has not yet been fully adjusted.
5. The Commissioners will continue to be prepared to consider making loans in addition to the quota entitlement to authorities which encounter exceptional difficulty or hardship, and also in a wider range of circumstances, in particular where they deem it appropriate in support of the Government's stated policy that the great majority of local authorities' requirements for borrowing should be met by the Board. The purposes for which such loans have been granted recently have included to replace

maturing market debt, to replace short-term borrowings or to correct an imbalance in an authority's debt portfolio. The list is not exclusive and authorities are therefore encouraged to approach the Board if they consider they have a requirement not provided for within the quota entitlement. It should be noted, however, that it is unlikely that the Commissioners will grant additional sums to authorities with external investments if and to the extent it appears to them that these investments could be used instead.

6. The Commissioners will continue in 1997-98 to grant additional sums for the purpose of refinancing loans with a balance outstanding of £50,000 or less.
7. Loans in addition to the quota entitlement will again be made available at the 'Lower' or 'Higher' rates under the terms of paragraph 3 above as if they formed part of the quota.
8. Three other changes will be introduced in 1997-98:
 - (i) the interval between successive exercise of an option to convert a loan from fixed to variable rate and from variable to fixed rate will be reduced from 5 to 4 years;
 - (ii) when exercising the option to repay a variable rate loan and replace it with a loan on fixed rate terms, the minimum period for the replacement loan will be reduced to the extent that the term of the replacement loan will be not less than the unexpired period of the original variable rate loan or 4 years if less, subject to a minimum of one year;
 - (iii) conversion of a loan from variable to fixed rate and premature repayment of a variable rate loan will be able to take place on any banking day. Details will be provided in a separate circular.
9. A circular giving full details of the arrangements for lending to local authorities from 1 April 1997 will be issued towards the end of March.
10. Enquiries relating to this circular may be made to 0171-270 3876/3874.

I H Peattie
Secretary