

01 November 2012

Circular 153

LENDING ARRANGEMENTS

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INTRODUCTION

1. This Circular supersedes Circular 152 dated 16 August 2012. Changes from 152 are to:
 - Paragraph 2, to refer to a new format for information about methodologies for setting interest rates
 - paragraph 11, to refer to a formal question about the Certainty Rate;
 - paragraph 44, to refer to public information about the Certainty Rate.
2. A separate PWLB Circular was formerly issued explaining the method for calculating the rates at which the Board may advance loans or accept early repayments. This circular is

henceforth replaced by a DMO Technical Note; the current such Note is dated 1 November 2012.

POWERS TO LEND

3. The Board has powers to lend to local authorities as listed in [Appendix A](#). It also has powers to lend to parish councils in England, community councils in Wales, and internal drainage boards. Not all the arrangements described in this circular apply to them, but further information is available on the Board's website and on request. The Board will advise any entity unsure of its power to borrow from the PWLB.

GENERAL POLICY

4. The Board is prepared to lend to an authority up to the available capacity in its legal borrowing limit.
5. The Board expects an authority undertaking financial transactions to act prudently and legally. The Board will not lend to an authority which has chosen to act unlawfully, and is required before making a loan to be satisfied that there is sufficient security for its repayment. In dealing with applications the Board's officers will ask the local authority for assurances that the authority is acting properly and according to statute. The Board will rely on the answers to these questions. The Board will not refuse an application if satisfied that it conforms to its lending arrangements. To that extent, the Board can be relied on as lender of last resort.
6. Loans are automatically secured by statute on the revenues of the authority.
7. Where appropriate, the Board will give advance notice of changes to its policies and practices and will endeavour to consult stakeholders beforehand. However, in the event of a dispute arising for whatever reason the final decision will be for the Commissioners.

APPLICATIONS FOR LOANS

Preliminaries

8. The Board will accept loan applications only from staff nominated by the authority's chief financial officer. An authority must submit its list of names on a single form, Local Authority Authorisation (LAA), available from the Board's website. Where nominations are to be refreshed, a new, complete list of names is required. The LAA form may also be used to nominate signatories authorised to notify details of a receiving bank account.
9. New borrowers should notify the Board in advance of the bank account to be used to receive loans. Such notification should be on the authority's headed paper and signed by two of at least three officers notified on form LAA for the purpose. Similar notification is required in good time where an authority changes its receiving bank account.

Procedure

10. Loan applications may be made by telephone only and only within the Board's hours of business. The terms of the loan and the rate of interest on a fixed rate loan – or the formula for a variable rate loan – will be agreed at the time and the advance made within 48 hours (excluding weekends and bank holidays) according to the timetable 'trade+2' as set out in [Appendix B](#). Advance of a loan may be expected provided the application falls within the Board's lending arrangements. An application will be deemed as authorising the Board to transmit the amount advanced less the appropriate fee. The Board will not normally allow a loan application to be withdrawn.
11. When a borrower seeks a loan, its authorised dealer will be asked to state its borrower

number (the Board's five-figure reference number) and then to answer the following four questions:

- Is your authority complying with the appropriate requirements of the Board's current circulars?
- Is this application within the relevant legislation and your council's borrowing powers?
- By when does the Director of Finance expect the loan to be entirely applied to expenditure? (The answer should be expressed in terms of the number of months from the point of application. The response to this question should be agreed in advance with the responsible finance officer.)
- Is your authority on the published list of local authorities qualifying for the Certainty Rate discount?

12. The authorised dealer will be asked the figure for the authority's legal borrowing limit and the 'headroom', i.e. the amount of borrowing capacity available within the limit at the date of the proposed advance, which is calculated by deducting the authority's existing debt from the legal borrowing limit. The dealer will then be asked to give the following details of the required loan:

- type of loan: i.e. whether fixed or variable
- repayment or amortisation method
- sum required
- date of final payment, which will coincide with a repayment date
- where not apparent from the date of final payment: repayment dates, in the case of a fixed rate loan, or interest payment frequency, in the case of a variable rate loan
- Sort code and number of the receiving bank account

13. Staff from the Board's offices will telephone the local authority as soon as practicable after a loan has been agreed, and in any event within 24 hours (excluding weekends and bank holidays), to verify the details. In addition, the Board will send the authority a letter confirming the terms of the agreement. In the normal course of business the authority will not receive the letter until after the loan has been advanced.

Type of loans by interest rate

14. Two types of loan according to interest rate are available from the Board:

- Fixed rate loans, on which the rate of interest is fixed for the life of the loan and interest is payable at half-yearly intervals;
- Variable rate loans, on which the rate of interest is variable at one, three or six monthly intervals. The interval is at the choice of the borrower but once chosen remains the same for the life of the loan.

Type of loans by method of repayment or amortisation

15. **Fixed rate loans** are repayable by one of three methods:

- Annuity or Equal Repayments (ER): fixed half-yearly payments to include principal and interest; or

- Equal Instalments of Principal (EIP): equal half-yearly instalments of principal together with interest on the balance outstanding at the time; or
- Maturity: half-yearly payments of interest only with a single repayment of principal at the end of the term.

Repayments are at half-yearly intervals, with an initial broken period as necessary (see paragraph 22).

16. **Variable rate loans** are repayable by one of two methods:

- EIP: equal monthly, quarterly or half-yearly instalments of principal together with interest on the balance outstanding at the time; or
- Maturity: monthly, quarterly or half-yearly payments of interest only with a single repayment of principal at the end of the term.

Repayments are at one, three or six monthly intervals from the date of advance, at the borrower's choice.

Interest rates

17. Interest rates are determined by the UK Debt Management Office (DMO) in accordance with methodologies agreed with HM Treasury under section 5 of the National Loans Act 1968. Those for the advance and repayment of fixed rate loans are determined by reference to gilt yields, those for variable rate loans by reference to a formula. There are two intra-daily re-determinations of fixed rates, published at 9.30 a.m., for start of business, and 12.30 p.m. The rate of interest charged on the advance of a fixed rate loan, the discount rate applied to the repayment of such a loan, and the formula for a variable rate loan, is that agreed at the time of application. Variable rates are not determined until shortly after 11 a.m. on the day. HM Treasury reserves the right to make further, unscheduled intra-daily rate changes, or alter the formula methodology or formula for variable rates, as necessary. The interest rate notice in force and past rates are displayed on the Board's website.

Interest rate formulae

18. Rates for the advance or repayment of fixed rate loans are calculated by applying a margin to the gilt par yield curve, to ensure that the PWLB does not on-lend at rates lower than those at which the Government could notionally borrow by issuing gilts and generally to ensure compliance with the policies of HM Treasury. Interest rates for variable rate loans are determined by reference to the cost of Government borrowing for the appropriate period. For further details see the separate DMO Technical Note on the interest rate methodology. HM Treasury reserves the right to alter formulae, margins or other parameters, exceptionally without notice.

Loan periods and repayment dates

19. An authority may choose the final repayment date for any loan within the following limits:

		Minimum period (years)	Maximum period (years)
Fixed rate loans	Maturity	1	50
	Annuity or EIP	2	50
Variable rate loans	Maturity	1	10
	EIP	2	10

20. A loan repayable by the Annuity or the EIP method may be for any period between the minimum and maximum provided there are at least 4 half-yearly payments in respect of a fixed rate loan and 24 monthly, 8 quarterly or 4 half-yearly payments in respect of a variable rate loan.
21. A loan will terminate on a repayment date. A maturity loan for one year is repayable on the first anniversary of the advance. For a fixed rate maturity loan for a period of more than one year and up to the maximum shown above, the borrower may choose the maturity date.
22. Payments of a **fixed rate loan** are at half-yearly intervals. The first payment date must be not more than six months from the date of advance. Interest is calculated by applying half of the annual interest rate to the balance of the loan outstanding at the start of the half-year. If the date a loan is issued does not fall on one of the half-yearly repayment dates, interest for the broken period will be calculated on the Actual/Actual basis (see [Appendix C](#)).
23. Repayments of a **variable rate loan** are made at one, three or six monthly intervals from the date of advance, according to the choice of repayment period. The rate applicable to the first repayment period of a loan is that in force on the day of the advance and, in the case of each subsequent repayment period, that in force on the first banking day of the period. Once chosen, the repayment interval applies for the life of the loan.
24. The Board is prepared to make loans repayable over periods other than a whole number of years, for example, 10½ years for fixed rate loans, 5¼ years for 3 months variable rate loans, etc.
25. *Take, for example, a loan agreed on Tuesday 15 January and maturing on 22 July the following year. The advance would be made on 17 January, assuming no non-banking days intervene. The scheduled payments would fall on 22 January and 22 July in the year of advance and the following year, making four payments over the life of the loan. The term of the loan would be slightly over 18 months, and the interest rate taken from the band 'over 1½ years but not over two years'.*

Advance of loans

26. Loans are advanced in accordance with the timetable in [Appendix B](#). The amount of the advance, after deduction of the Board's fee, will be transmitted to the borrower's designated bank account by automated credit transfer.

Fees

27. The fees payable by local authorities in respect of advances from the Board are:

- Fixed rate loans - 35p for every £1,000 or part of £1,000
- Variable rate loans - 45p for every £1,000 or part of £1,000
- Minimum fee - £25

Loan payments

28. Scheduled payments are invoiced approximately four weeks before each due date.
29. The Board prefers borrowers to permit the use of direct debiting, which is a simple and cost-effective way to make loan repayments punctually. When the due date falls on a non-banking day, the payment will be collected on the next banking day. If exceptionally a payment cannot be processed by direct debit on the due date, the Notice of Loan Repayments will be marked to this effect and include instructions to make the payment by an alternative method. Instances of such an exception would be where the amount due exceeds the maximum amount permitted by the payment authorities, or where the first repayment date on a loan is too close to the advance date for a BACS payment to be processed.
30. An authority paying otherwise than by direct debit must ensure that payments are made in time to clear to the Board's bank account (see [Appendix D](#)) by the due date. When the payment date falls on a non-banking day the payment must be credited to the Board's account on or before the next banking day. Late payments may be subject to a late interest charge.

PREMATURE REPAYMENT OF LOANS

31. The Board has discretion to accept repayment of a loan, in whole or in part, in advance of the date on which the repayment is due to be made. It will not normally accept premature repayment of any loan which has been running for less than one year or of a fixed rate loan which has less than a year to run.
32. The terms for accepting an early repayment are designed to protect the National Loans Fund, which is the source of the Board's funds. The total amount payable in order to redeem a debt is the present value (PV) of the remaining payments of principal and interest, calculated on normal actuarial principles using the rate defined in paragraph 33. The result of the calculation is a settlement sum representing a discount or premium on the outstanding principal according to whether the discount rate is respectively higher or lower than the loan rate, plus interest accrued from the previous scheduled repayment date if applicable.
33. When a fixed rate loan is prematurely repaid, the discount rate is the rate in the 'premature repayment' set of rates in force when the repayment is agreed for a notional loan for a period equal to the remaining term of, and repayable by the same method as, the loan being repaid prematurely. The discount rate for a variable rate loan is taken from the set of rates applying to new loans agreed before 12.30pm on 20 October 2010, with the same interest repayment period as the loan being repaid prematurely. In the case of a variable-rate loan it is not possible to repay on a rate-reset day that falls on a non-banking day.
34. When notifying the Board the authority should state the total amount of principal to be repaid and give the following information for each loan:
 - the loan number
 - the amount to be repaid, if less than the balance outstanding
 - confirmation that the loan is not in one of the categories in paragraph 31

The Board should be telephoned in accordance with the normal timetable for business ([Appendix B](#)) to agree the terms for the repayment. The agreed terms will be deemed a binding commitment to repay on those terms and on the day specified.

35. For fixed rate loans, normally the Board will inform the authority of the settlement amount at the time of agreement. For variable rate loans the authority will be informed of the settlement amount as soon as practicable after 11 a.m. on the settlement day. Figures will be confirmed in writing on request. The amount will take account of the discount or premium and include, when appropriate, interest accrued from the last payment date. The authority must then arrange with its bankers for the amount to be credited on the agreed settlement date to the Board's bank account ([Appendix D](#)).
36. Where an early repayment is not received on the agreed date, interest will be charged on the overdue amount in accordance with the Board's terms for late payments.

REFINANCING OF LOANS

37. It is open to borrowers to replace one loan with another, subject to the Board's usual terms. A borrower wanting to restructure a loan or loans may do so according to the general arrangements set out in this circular, making the early repayment and seeking a replacement advance on dates to be agreed with the Board. Because the Board treats the two arms of the transaction - the inward and outward flows - as separate, amounts are transmitted gross.

LATE PAYMENTS

38. The Board reserves the right to charge interest on late payments.
39. For loans advanced after 31 March 2004, interest will be charged on late payments at the Bank of England 'repo' rate for the day from the relevant payment date to the date on which the Board's account is credited. The same terms apply to delayed premature repayments.
40. For loans advanced on or after 1 March 1985 but before 1 April 2004, interest will be charged on late payments of fixed rate loans on the whole of the late payment (i.e. both principal and interest) from the relevant payment date at the appropriate fixed rate in force at the start of business on that date for loans repayable at maturity after one year, to the date on which the Board's account is credited. In the case of variable rate loans, interest is charged on the whole of a late payment from the relevant interest payment date to the date on which the Board's account is credited, at the cost of Government borrowing for one, three or six months, as appropriate, in force on the relevant payment date.
41. On fixed rate loans advanced before 1 March 1985, interest will be charged on the principal element of the late payment from the relevant interest payment date to the date on which the Board's account is credited. The rate of interest will be the same as that charged on the loan.

TRANSFER OF DEBT

42. The Board is prepared to consider applications for the transfer of debt between authorities, but only to accommodate statutory local government reorganisation, which may include situations where a function transfers from one authority to another. Authorities wishing to transfer debt should contact the Board well in advance of the proposed date.

FREEDOM OF INFORMATION

43. The Public Works Loan Board is subject to the Freedom of Information Act 2000, which establishes a general right of access to information held by public authorities. Further details are available from the Board's website or on request. Where the Board provides information to a third party under the terms of the Act, it may as a courtesy notify the

borrower of the information provided, but in keeping with its obligations under Data Protection legislation will not identify the person making the request.

WEBSITE

44. The Board's website, www.pwlb.gov.uk, is within the website of the UK Debt Management Office, www.dmo.gov.uk. The site includes circulars; information about the Certainty Rate, including HM Treasury's list of qualifying local authorities; a calculator of indicative repayment costs; Annual Reports; a Monthly Report; current and past interest rates etc. The 'What's New' page offers a facility for viewers to be notified of changes. Unscheduled intra-day rate changes are so notified.

HOURS OF BUSINESS; ENQUIRIES

45. Loan applications may be made by telephone only (0845 357 6610). The Board will not accept telephone business before 9.30 hours or after 16.15. Calls are recorded for training and monitoring purposes. Routine enquiries, or wider suggestions about the Board's services, may be made in the first instance by e-mail (pwlb@dmo.gsi.gov.uk), where appropriate quoting the Board's five-digit reference number.

This version has been superseded

APPENDIX A: LOCAL AUTHORITIES

- the councils of all counties and districts in England
- the councils of all counties and county boroughs in Wales
- the councils of all London boroughs
- the Common Council of the City of London
- the Greater London Authority and its functional bodies
- the councils of local government areas in Scotland
- the Council of the Isles of Scilly
- the Broads Authority
- National Park Authorities established under the Environment Act 1995
- Greater Manchester Combined Authority
- Integrated Transport Authorities
- passenger transport executives
- police authorities; Police & Crime Commissioners
- fire & rescue authorities
- waste disposal authorities
- port health authorities
- Regional Transport Partnerships in Scotland
- other authorities in England, Wales or Scotland having power to levy council tax or to issue a precept or levy

This version has been superseded

APPENDIX B: TIMETABLE FOR SETTLEMENT

Agreement of terms	Day of advance or repayment (where no bank holiday intervenes)
Monday	Wednesday
Tuesday	Thursday
Wednesday	Friday
Thursday	Monday
Friday	Tuesday

APPENDIX C: CALCULATION OF INTEREST ON INITIAL BROKEN PERIOD

The interest due on an initial broken period is calculated on the basis of Actual/Actual. This is calculated as:-

$$\text{Interest} = \frac{\text{Amount of Loan} * \frac{1}{2} \text{ Yearly Interest Rate} * \text{Days (First Payment Date - Advance Date)}}{\text{Days (First Payment Date- Notional Previous Payment Date)}}$$

Worked examples

1. £1 million Loan advanced 15 October 2009 at a rate of 3%; repayments to be made 31 March / 30 September

$$\text{Interest} = \frac{\text{Amount of Loan} * \frac{1}{2} \text{ Yearly Interest Rate} * \text{Days (First Payment Date - Advance Date)}}{\text{Days (First Payment Date- Notional Previous Payment Date)}}$$

$$= \frac{1,000,000 * 0.015 * \text{Days (31 March 2010 - 15 October 2009)}}{\text{Days (31 March 2010 - 30 September 2009)}}$$

$$= \frac{1,000,000 * 0.015 * 167}{182} = \text{£}13,763.74$$

2. £1 million Loan advanced 16 April 2010 at a rate of 3%; repayments to be made 31 March / 30 September

$$\text{Interest} = \frac{\text{Amount of Loan} * \frac{1}{2} \text{ Yearly Interest Rate} * \text{Days (First Payment Date - Advance Date)}}{\text{Days (First Payment Date- Notional Previous Payment Date)}}$$

$$= \frac{1,000,000 * 0.015 * \text{Days (30 September 2010 - 16 April 2010)}}{\text{Days (30 September 2010 - 31 March 2010)}}$$

$$= \frac{1,000,000 * 0.015 * 167}{183} = \text{£}13,688.52$$

APPENDIX D: BOARD'S BANK ACCOUNT FOR RECEIVING PAYMENTS

Sort Code	08-33-00
Account No.	12495821
Account Name	GBS RE PUBLIC WORKS LOANS