

LENDING ARRANGEMENTS

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INTRODUCTION

1. Circular 144 dated 22 June 2010 set out the Board's lending arrangements. The present Circular, which applies from the date of issue until further notice, updates the Board's policies and operational arrangements. It replaces Circular 144, consolidates the changes announced in Circulars 145-147, revises the general policy (see [paragraph 4](#)), requires the Chief Finance Officer to be a signatory to a change in bank details (see [paragraph 10](#)) and withdraws the formal option to convert a loan, which has fallen into disuse.
2. Separate circulars are issued explaining the method for calculating the Board's interest rates; the first such circular is no.149 issued simultaneously with this circular.

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 (see [paragraph 45](#) and [paragraph 46](#)). The Board will advise any

entity unsure of its power to borrow.

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 (see [paragraph 12](#)). 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. The Board is generally open to requests to make early repayments or enter into transactions to refinance loans, but in any case the terms will not favour the borrower over the National Loans Fund.
8. 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 the final decision will be for the Commissioners.

APPLICATIONS FOR LOANS

Preliminaries

9. The Board will accept loan applications only from staff nominated by the authority's Chief Finance Officer. An authority must submit its list of names on a single form LASIGNATORIES, available from the Board's website. Where nominations are to be updated, a new, complete list of names is required. LASIGNATORIES may also be used to nominate signatories authorised to notify receiving bank account details to the Board (see [paragraph 10](#)).
10. 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 the authority's Chief Finance Officer and one other of at least three officers nominated on form LASIGNATORIES for the purpose by the Chief Finance Officer. Similar notification is required in good time where an authority changes its receiving bank account.

Procedure

11. Loan applications can be made by telephone only and only within the Board's hours of business, 09:30 to 16:15 hours (see [paragraph 46](#)). The terms and rate of interest on a fixed rate loan, or the formula for a variable rate loan (see [paragraph 19](#)), will be agreed at the time and the advance made within 48 hours (excluding weekends and bank holidays) according to the timetable 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 (see [paragraph 28](#)). The Board will not normally allow a loan application to be withdrawn.
12. 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 three 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 (Chief Finance Officer) 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/Chief Finance Officer.)
13. 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 provide the following details of the required loan:

- type of loan: i.e. whether fixed or variable (see [paragraph 15](#))
- repayment or amortisation method (see [paragraphs 16](#) and [17](#))
- 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 (see [paragraphs 16](#) and [17](#)); and
- sort code and number of the receiving bank account

14. 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

15. 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

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

- Annuity or Equal Repayments (ER): fixed half-yearly payments to include principal and interest
- Equal Instalments of Principal (EIP): equal half-yearly instalments of principal together with interest on the balance outstanding at the time
- 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 23](#)).

17. **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 (see [paragraph 15](#) and [paragraph 24](#)).

Interest rates

18. There are two intra-daily re-determinations of fixed rates, published at 09:30, for start of business, and 12:30. The right is reserved to make further, unscheduled intra-daily re-determinations as necessary. The rate of interest charged on the advance of a fixed rate loan, the discount rate applied to the repayment of a fixed rate loan and the formula for a variable rate loan are as agreed at the time of application. For further details of the application of interest rates to variable rate loans, see [paragraph 24](#). Variable rates are not determined until shortly after 11:00 on the day. The interest rate notice in force and past rates are displayed on the Board's website (see [paragraph 45](#)).

19. Interest rates are determined by the UK Debt Management Office (DMO) in accordance with section 5 of the National Loans Act 1968 and methodologies agreed with HM Treasury. For further details see the separate circular on interest rate methodology (currently Circular No. 149). HM Treasury reserves the right to alter formulae, margins and other parameters, exceptionally without notice.

Repayments, final and scheduled

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

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

21. 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 four half-yearly payments in respect of a fixed rate loan and 24 monthly, eight quarterly or four half-yearly payments in respect of a variable rate loan.

22. 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.

23. 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 an Actual/Actual basis (see [Appendix C](#)).

24. Repayment of a **variable rate loan** are made at one, three or six monthly intervals from the date of advance, according to the choice of payment period. The rate applicable to the first payment period of a loan is that in force on the day of the advance and, in the case of each subsequent payment period, that in force on the first banking day of the period. Once chosen, the repayment interval applies for the life of the loan.

25. 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.

26. *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 repayments would fall on 22 January and 22 July in the year of advance and the following year, making four repayments 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

27. 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

28. 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

Payments and repayments

29. Scheduled payments are invoiced approximately four weeks before each due date.

30. The Board prefers borrowers to repay by direct debit, which is a simple and cost-effective way to make loan payments 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.

31. 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 (see [paragraphs 39-42](#)).

PREMATURE REPAYMENT OF LOANS

32. 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. Notice of a premature repayment should be given by telephone (see [paragraph 46](#)) in accordance with the timetable in [Appendix B](#).

33. The terms for accepting an early repayment are designed to protect the National Loans Fund. 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 34](#). 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.

34. 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 the rate of interest that would have been applicable to a new loan, with the same interest payment period as the loan being repaid prematurely, agreed before 12:30 on 20 October 2010.

35. 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 32](#).

The Board should be telephoned (see [paragraph 46](#)) 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.

36. 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 11:00 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](#)).

37. 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 (see [paragraphs 39-42](#)).

REFINANCING OF LOANS

38. 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 transactions (the inward and outward flows) as separate, amounts are transmitted gross.

LATE PAYMENTS

39. The Board reserves the right to charge interest on late payments.

40. 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 (see [paragraph 37](#)).

41. 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.

42. 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

43. The Board is prepared to accommodate the transfer of debt between authorities following local government reorganisation or for any other reason. Authorities wishing to transfer debt should contact the Board well in advance of the proposed date of transfer. When transfers are by agreement, the consent of the parties is required at least five working days before the transfer is due to take place.

FREEDOM OF INFORMATION

44. 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 (see [paragraph 45](#)) or on request. Where the Board provides information to a third party under the terms of the Act, it may, where practical, 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

45. 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, a calculator of indicative repayment costs, Annual Reports and Accounts and a monthly report of loans advanced, 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

46. Loan applications may be made by telephone only (0845 357 6610). The Board will not accept telephone business before 09:30 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.

Mark Frankel
Secretary

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.
- Integrated Transport Authorities
- passenger transport executives
- police authorities
- 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

APPENDIX B: TIMETABLE FOR SETTLEMENT

Agreement of terms	Day of advance or repayment
Monday	Wednesday
Tuesday	Thursday
Wednesday	Friday
Thursday	Monday
Friday	Tuesday

Where a Bank Holiday intervenes the timetable moves back by the appropriate number of days. Thus if a Monday is a non-banking day and the advance is required to be made on the Tuesday, the agreement would need to be made the previous Thursday.

APPENDIX C: CALCULATION OF INTEREST ON INITIAL BROKEN PERIOD

Interest due on an initial broken period is calculated on the basis of Actual/Actual:

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

Worked examples

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

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

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

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

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

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

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

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

APPENDIX D: BOARD'S BANK ACCOUNT

Sort Code **08-33-00**

Account No. **12495821**

Account Name **GBS RE PUBLIC WORKS LOANS**

This account is for payments by the following methods only: CHAPS, direct credit, online and telephone banking. The account details differ for payment by other methods.