



United Kingdom  
Debt Management  
Office

**Public Works Loan Board**

**Annual Report and Accounts 2013-2014**

**Public Works Loan Board  
Report and Accounts 2013 – 2014**

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

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# Contents

<b>Foreword</b>	
Introduction	7
Background to the Public Works Loan Board	7
Commissioners in post	7
The function of the Commissioners	9
Governance and membership of the Public Works Loan Board	9
Statutory provisions for loans	9
Policy and lending arrangements	10
Audit arrangements	10
<b>Management commentary</b>	
Summary of results in 2013-2014	13
Factors influencing financial performance	13
Applications for loans	16
Review by type of borrower	16
Types of loans, periods, rates and incidence of drawings	18
Scheduled and early repayments	22
Repayments in arrears	23
Rates of interest	23
Concessionary rates	23
Transfers of debt	25
Service performance	25
Future developments	25
<b>Statement of Secretary's responsibilities</b>	<b>27</b>
<b>Governance statement</b>	<b>29</b>
<b>Certificate and report of the Comptroller and Auditor General</b>	<b>39</b>
<b>Financial statements and notes to the accounts</b>	
Statement of comprehensive income	43
Statement of financial position	44
Statement of cash flows	45
Notes to the accounts	46
<b>Accounts Direction given by HM Treasury</b>	<b>57</b>



## Table of figures

Summary of transactions and balances outstanding (Figure 1)	14
Amounts advanced by type of borrower (Figure 2)	17
Principal outstanding and advanced, month by month (Figure 3)	18
Term till maturity of fixed rate advances and their interest rates (Figure 4)	19
Amounts advanced for fixed rate loans and their interest rates, month by month (Figure 5)	19
Amounts advanced and their term till maturity, month by month (Figure 6)	20
Amounts of fixed and variable rate loans advanced, month by month (Figure 7)	20
Average rate and term till maturity of advances, year by year (Figure 8)	21
New loans by type and by term till maturity (Figure 9)	22
Early repayments (Figure 10)	23
Fixed interest rates by term till maturity of loan (Figure 11)	24
Bank of England rate and 3 month variable rate (Figure 12)	24

# Foreword

The Public Works Loan Board (PWLB) is an independent and unpaid statutory body, which originated in 1793 and became established on a permanent basis in 1817. Since 1946 it has consisted of up to twelve Commissioners appointed by the Crown. The functions of the Commissioners are to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. The PWLB has operated within the United Kingdom Debt Management Office since July 2002.



## Introduction

**This publication presents the annual Report and Accounts of the Public Works Loan Board for the year ended 31 March 2014. The accounts have been prepared by the Public Works Loan Board (PWLB) 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 Public Works Loan Commissioners, under section 5 (3) of the Public Works Loans Act 1875 ('the 1875 Act'), to report annually to Parliament.**

The Report and Accounts show amounts advanced by the PWLB and the repayments received from borrowers. The accounts do not show the resources that have been used to deliver the PWLB's objectives, which are reported in the United Kingdom Debt Management Office Report and Accounts 2013-2014.

for four years. Retiring Commissioners are eligible for re-appointment. Since 2002, the management and operation of the PWLB has been the responsibility of the United Kingdom Debt Management Office (DMO).

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

### Background to the Public Works Loan Board

The PWLB is a statutory body that originated in 1793 and became permanently established in 1817. It dates in its present form from the 1875 Act. Since 1946 it has consisted of a maximum of twelve Commissioners appointed by the Crown to hold office

### Commissioners in post

The Commissioners holding office during the year were as shown below.

Original appointment began		Current appointment ends
2003	<p>Chairman - <b>Tony Caplin</b></p> <p>Chairman, North West London Hospitals NHS Trust</p> <p>Member, Medical Research Council</p>	2015*
2009	<p><b>John Campbell</b></p> <p>Former Director of Corporate Resources, Scottish Borders Council</p>	2017
2009	<p><b>Richard Gibson</b></p> <p>Former member, Senior Civil Service, Office of the Deputy Prime Minister</p>	2017



2010	<b>Anna Forge</b> Consultant, Pinsent Masons LLP	2014
2010	<b>Maureen Wellen</b> Former Assistant Director, Chartered Institute of Public Finance and Accountancy	2014
2011	<b>Hugh O'Sullivan</b> Former Director of Finance and Economic Development, Merthyr Tydfil County Borough Council	2015
2013**	<b>Amanze Ejiogu</b> Lecturer, Robert Gordon University, Aberdeen	2017
2013**	<b>Anthony Hodges</b> Consultant, Marnhill International Associates	2017
2013**	<b>David Roberts-Jones</b> Retired Chief Executive Member and Honorary Treasurer, Royal Music Association Member and Trustee, British Society for Sexual Health and HIV	2017
2013**	<b>Mike Weaver</b> Former Director of Financial Services, Worcestershire County Council Former President, Chartered Institute of Public Finance and Accountancy	2017

\* Tony Caplin resigned as Chairman and Commissioner on 19 April 2014

\*\* Appointments made by Royal Warrant on 18 November 2013

Officials of the PWLB were:

**Secretary**

Mark Frankel

**Assistant Secretary**

Tony Dinnage

## The function of the Commissioners

The function of the Commissioners, derived chiefly from the Acts of 1875 and 1968, is to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. Nearly all borrowers are local authorities requiring loans for capital purposes. The security for money borrowed by a local authority, together with interest, is charged indifferently on all its revenues; all securities created rank equally without any priority. The Commissioners are legally required before making a loan to satisfy themselves that there is sufficient security for its repayment. The management of credit risk is described in Note 9 to the accounts.

The Commissioners are unpaid and act collectively to discharge their duties. The Commissioners have delegated to the Secretary day-to-day responsibilities for authorising loans and collecting due payments. The Secretary's role is analogous to being Accounting Officer of the PWLB and he attends meetings of the Commissioners, which take place annually.

## Governance and membership of the Public Works Loan Board

Operationally, the PWLB is part of the DMO, an executive agency of HM Treasury, and its staff are employees of the DMO. The Commissioners retain their statutory role while expecting the Secretary to supervise the operations of the PWLB subject to the same controls as apply to the DMO's operations as a whole. Since the Secretary relies on the effectiveness of the DMO's internal control framework, he looks to its Chief Executive, as the DMO Accounting Officer, to manage the DMO to the required standards.

The term as Commissioner of Anna Forge ended on 31 March 2014 and her work and assistance to the PWLB has been much appreciated. The term of Maureen Wellen also ended on 31 March 2014, but the intention is to re-appoint her. By Royal Warrant dated 18 November 2013, Amanze Ejiogu, Anthony Hodges, David Roberts-Jones and Mike Weaver were appointed Commissioners, while John Campbell and

Richard Gibson were re-appointed, in all cases for terms of four years. By the same Warrant, Tony Caplin was appointed Chairman for the remainder of his term as a Commissioner. He later resigned as Chairman and Commissioner on 19 April 2014.

## Statutory provisions for loans

Section 3 (11) and Schedule 4 of the 1968 Act authorise the Commissioners 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. The Commissioners also have the powers to lend to certain harbours, but as a matter of policy no longer do so.

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

- any commitments of the Commissioners 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 the Public Works Loan Commissioners. The Local Loans (Increase of Limit) Order 2008 increased that limit from £55,000 million to £70,000 million. In the March 2014 Budget, HM Government announced that it would take the legal powers needed to increase this limit from £70,000 million to £95,000 million.

The PWLB borrows from the National Loans Fund in order to fund its loans. All loan repayments to the PWLB are paid over to the National Loans Fund to reduce this borrowing. All interest and premiums on early redemption paid to the PWLB are paid to the National Loans Fund. The PWLB borrows from the National Loans Fund in order to fund any discounts payable on early redemptions.

In accordance with Sections 3(2) and 5 of the 1968 Act, interest on loans made by the Commissioners is payable at rates set by the DMO using methodologies agreed with 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 to apply to early repayments.

The two types of loan available from the PWLB are:

- 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

The Commissioners are prepared to lend 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. The Commissioners require a verbal statement of confirmation from the borrowing authority, on taking out debt, that it is complying with the PWLB's Circulars and legislation with regard to the authority's borrowing powers.

Borrowers can request to repay loans before their due date. The PWLB has discretion to accept early repayments, but only on terms which do not favour the borrower over the National Loans Fund. The PWLB's lending policy and operational arrangements are publicised in Circulars displayed on the website at [www.pwlb.gov.uk](http://www.pwlb.gov.uk).

During the year, two new Circulars were issued. Circular 155, issued on 12 August 2013, simplified the questions to be asked of loan applicants. Circular

156, issued on 1 November 2013, added advice about the concessionary Project rate (see page 23).

### Audit arrangements

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

The Secretary confirms that, as far as he is aware, there is no relevant audit information of which the PWLB's auditors are unaware, and that he has taken all the steps that he ought to have taken as Secretary in order to make himself aware of any relevant audit information and to establish that the PWLB's auditors are aware of that information.

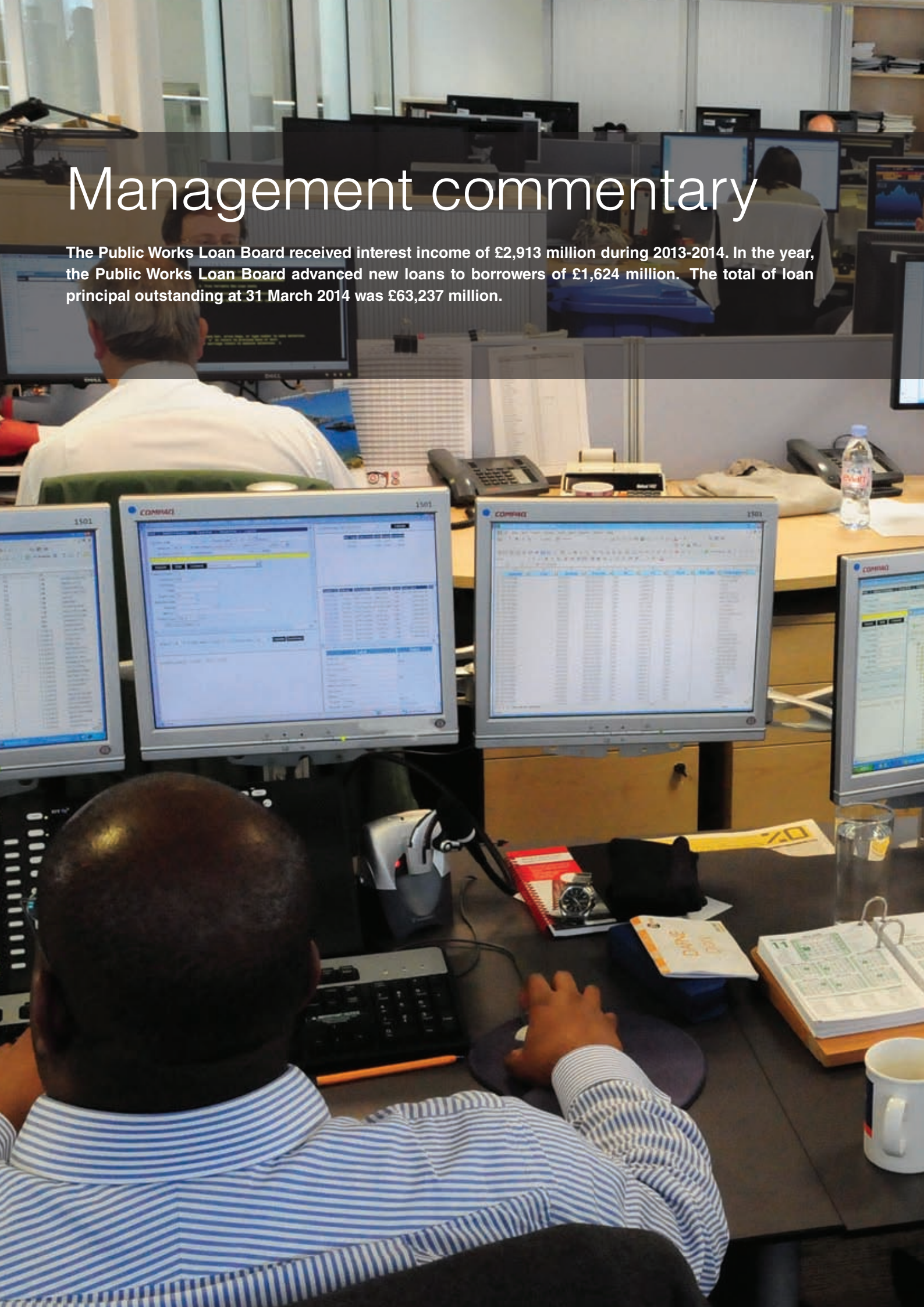
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# Management commentary

The Public Works Loan Board received interest income of £2,913 million during 2013-2014. In the year, the Public Works Loan Board advanced new loans to borrowers of £1,624 million. The total of loan principal outstanding at 31 March 2014 was £63,237 million.



## Summary of results in 2013-2014

The PWLB received interest income in the year of £2,913 million (2012-2013: £2,892 million). This comprised £2,885 million of contractual interest income (2012-2013: £2,870 million), and £28 million of premiums received due to the early redemption of loans (2012-2013: £22 million).

Year on year, the PWLB's interest income increased by £21 million. Contractual interest income increased by £15 million and premiums received increased by £6 million.

The PWLB advanced new loans to borrowers of £1,624 million (2012-2013: £3,159 million).

The PWLB's borrowers redeemed loans early with a principal value of £229 million in 2013-2014 (2012-2013: £198 million).

At 31 March 2014, the PWLB held loan assets of £63,743 million (31 March 2013: £64,284 million), inclusive of accrued income receivable of £506 million (31 March 2013: £752 million). The PWLB also held a cash balance of £129 million (31 March 2013: £81 million) comprising monies in transition between the National Loans Fund and the PWLB's borrowers.

Figure 1 sets out the advances made, 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 2014, the average period to maturity of fixed rate loans had fallen to 23.0 years (31 March 2013: 23.6 years). There had also been a reduction in the weighted average interest rate of the PWLB's loans outstanding at the balance sheet date to 4.53% (31 March 2013: 4.56%).

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.

The PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget, as agreed with HM Treasury. In 2013-2014, the DMO received fees and charges of £1 million from the PWLB's borrowers in respect of new loans issued (2012-2013: £1 million).

### 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 (early 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 early redemption and the rates available for money on deposit, also influence the pattern of demand for early redemption of existing loans and for refinancing.

Figure 1: Summary of transactions and balances outstanding

	In the year 2013-2014			Balances outstanding as at 31 March 2014		
	Advances £m	Repayments of principal £m	Repayments of interest £m	Principal due but not yet paid £m	Principal outstanding £m	Interest due but not yet paid £m
<b>Loans on local revenues to:</b>						
<b>Local authorities in England</b>						
County Councils	35	243	496	-	9,473	-
London Borough Councils	723	289	439	-	9,285	-
Metropolitan District Councils	153	371	564	-	10,531	-
Non-Metropolitan District Councils	215	447	667	-	16,694	-
Parish and Town Councils	15	8	6	-	134	-
Others	20	128	330	-	5,580	-
	<b>1,161</b>	<b>1,486</b>	<b>2,502</b>	<b>-</b>	<b>51,697</b>	<b>-</b>
<b>Local authorities in Wales</b>						
Principal Councils	46	58	165	-	2,675	-
Community Councils	-	-	-	-	4	-
Others	9	10	4	-	96	-
	<b>55</b>	<b>68</b>	<b>169</b>	<b>-</b>	<b>2,775</b>	<b>-</b>
<b>Local authorities in Scotland</b>						
Principal Councils	408	343	467	-	8,565	-
Others	-	23	20	-	198	-
	<b>408</b>	<b>366</b>	<b>487</b>	<b>-</b>	<b>8,763</b>	<b>-</b>
<b>Total loans on local revenues</b>	<b>1,624</b>	<b>1,920</b>	<b>3,158</b>	<b>-</b>	<b>63,235</b>	<b>-</b>

	In the year 2013-2014			Balances outstanding as at 31 March 2014		
	Advances £m	Repayments of principal £m	Repayments of interest £m	Principal due but not yet paid £m	Principal outstanding £m	Interest due but not yet paid £m
<b>Loans on property to harbour authorities</b>						
England	-	-	-	-	-	-
Wales	-	-	-	-	-	-
Scotland	-	-	-	-	2	-
<b>Total loans on property</b>	-	-	-	-	<b>2</b>	-
<b>Total loans on local revenues and property</b>	<b>1,624</b>	<b>1,920</b>	<b>3,158</b>	-	<b>63,237</b>	-
<b>Add Totals from 1817 to 31 March 2013*</b>	234,399	170,868	122,082			
Principal remitted or extinguished To 31 March 2013	n/a	(a)58	n/a			
In the year 2013-2014	n/a	n/a	n/a			
<b>Total at 31 March 2014</b>	<b>236,023</b>	<b>172,730</b>	<b>125,240</b>			

\* This shows the total advances, repayments of principal and repayments of interest since the PWLB was permanently established in 1817 till 31 March 2013.

(a) The principal remitted or extinguished up to 31 March 2013 includes £55 million extinguished on privatisation of water authorities.

The net present value of future cash flows of this portfolio of loans at 31 March 2014 was £74,922 million.



## Applications for loans

The PWLB agreed 218 applications for loans (2012-2013: 311 applications). 164 authorities applied for advances (2012-2013: 191 authorities), including 102 non-principal authorities (2012-2013: 98 non-principal authorities). Of the 543 principal authorities, 62 applied to the PWLB during the year. 128 principal authorities had no debt outstanding to the PWLB as at 31 March 2014.

## Review by type of borrower

Figure 2 shows loan advances made by the PWLB in 2013-2014 by type of borrower.

Figure 2: Amounts advanced by type of borrower

	Fixed rate (£m)	Variable rate (£m)	Total (£m)
<b>Local authorities in England</b>			
County Councils	35	-	35
London Borough Councils	723	-	723
Metropolitan District Councils	153	-	153
Non-Metropolitan District Councils	215	-	215
Parish and Town Councils	15	-	15
Others	20	-	20
	<b>1,161</b>	<b>-</b>	<b>1,161</b>
<b>Local authorities in Wales</b>			
Principal Councils	46	-	46
Community Councils	-	-	-
Others	9	-	9
	<b>55</b>	<b>-</b>	<b>55</b>
<b>Local authorities in Scotland</b>			
Principal Councils	408	-	408
Others	-	-	-
	<b>408</b>	<b>-</b>	<b>408</b>
	<b>1,624</b>	<b>-</b>	<b>1,624</b>

### Types of loans, periods, rates and incidence of drawings

The monthly totals of loan advances, and the effect on the PWLB's loan portfolio, can be seen in Figure 3. The principal balance outstanding to the PWLB at 31 March 2014 was £63.2 billion (31 March 2013: £63.5 billion).

The relationship between rates of interest and the term till maturity of advances for fixed rate loans can be seen in Figure 4. Figure 5 shows amounts advanced monthly for fixed rate loans and their interest rates. Figure 6 provides a monthly profile of advances and their term till maturity.

The demand for fixed and variable rate loans in 2013-2014 is demonstrated in Figure 7. The PWLB advanced £1,624 million of fixed rate loans (2012-

2013: £3,129 million) and no variable rate loans (2012-2013: £30 million).

Figure 8 shows the pattern of rates and the term till maturity of advances in the last five years.

The continuing popularity of maturity loans is shown in Figure 9.

The average repayment period for new loans was 15.6 years (2012-2013: 15.6 years).

Fixed rate loans with a value of £79 million (2012-2013: £31 million), or 5% of the total (2012-2013: 1%), were taken for the maximum period of 50 years. No fixed rate loans were taken for the minimum period of one year (2012-2013: none).

Figure 3: Principal outstanding and advanced, month by month

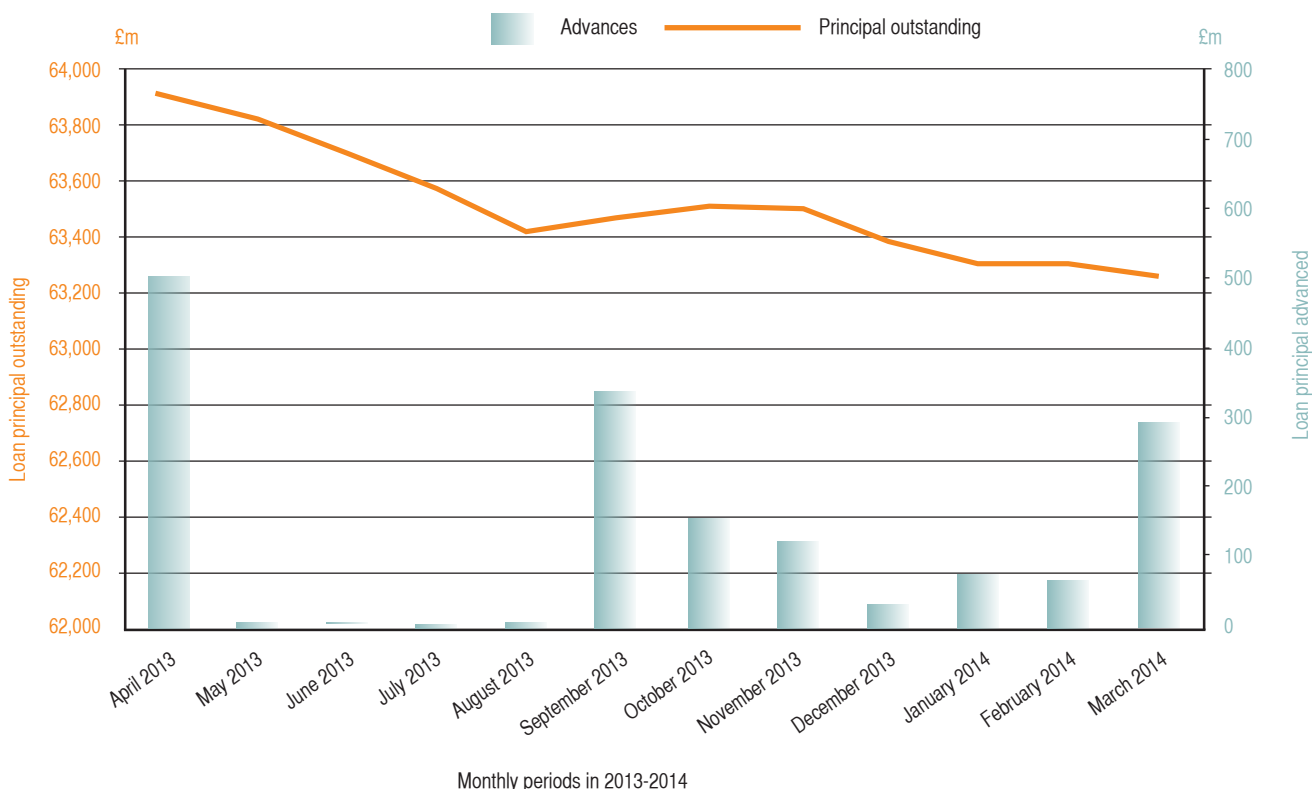


Figure 4: Term till maturity of fixed rate advances and their interest rates

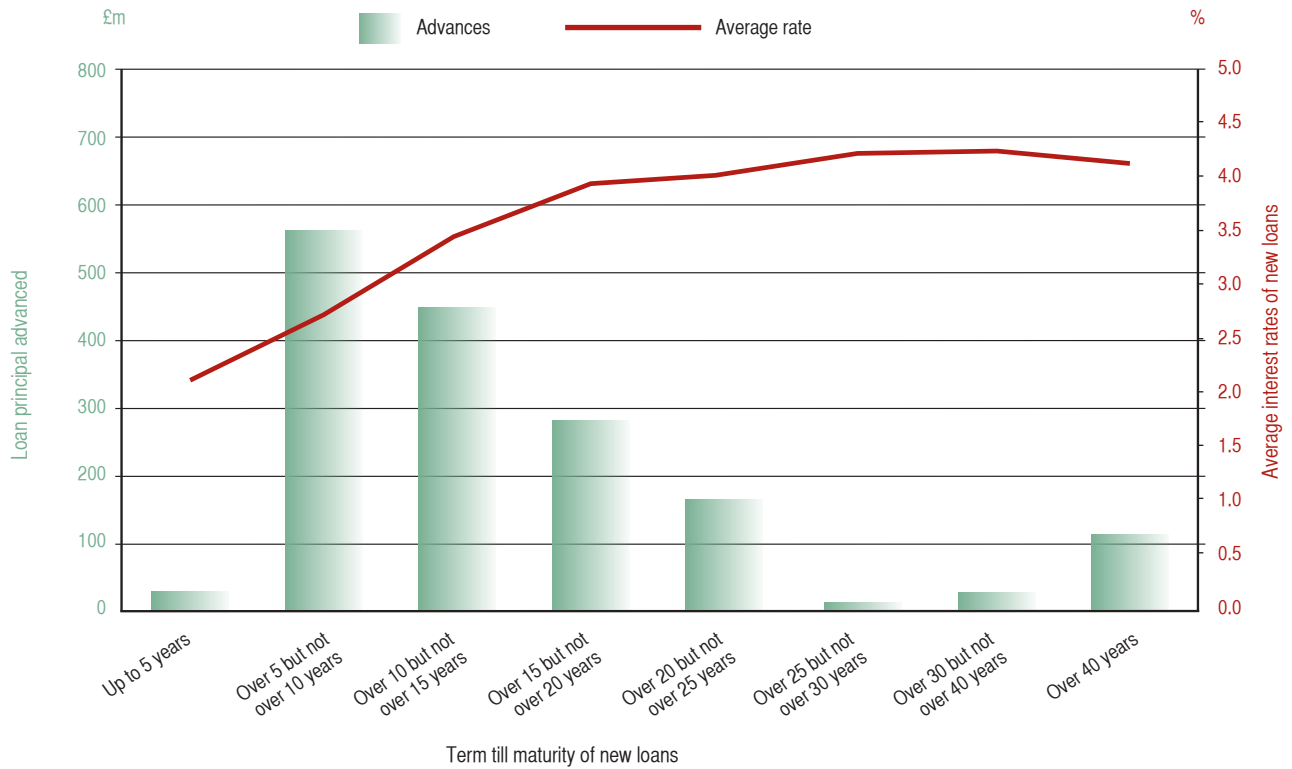


Figure 5: Amounts advanced for fixed rate loans and their interest rates, month by month

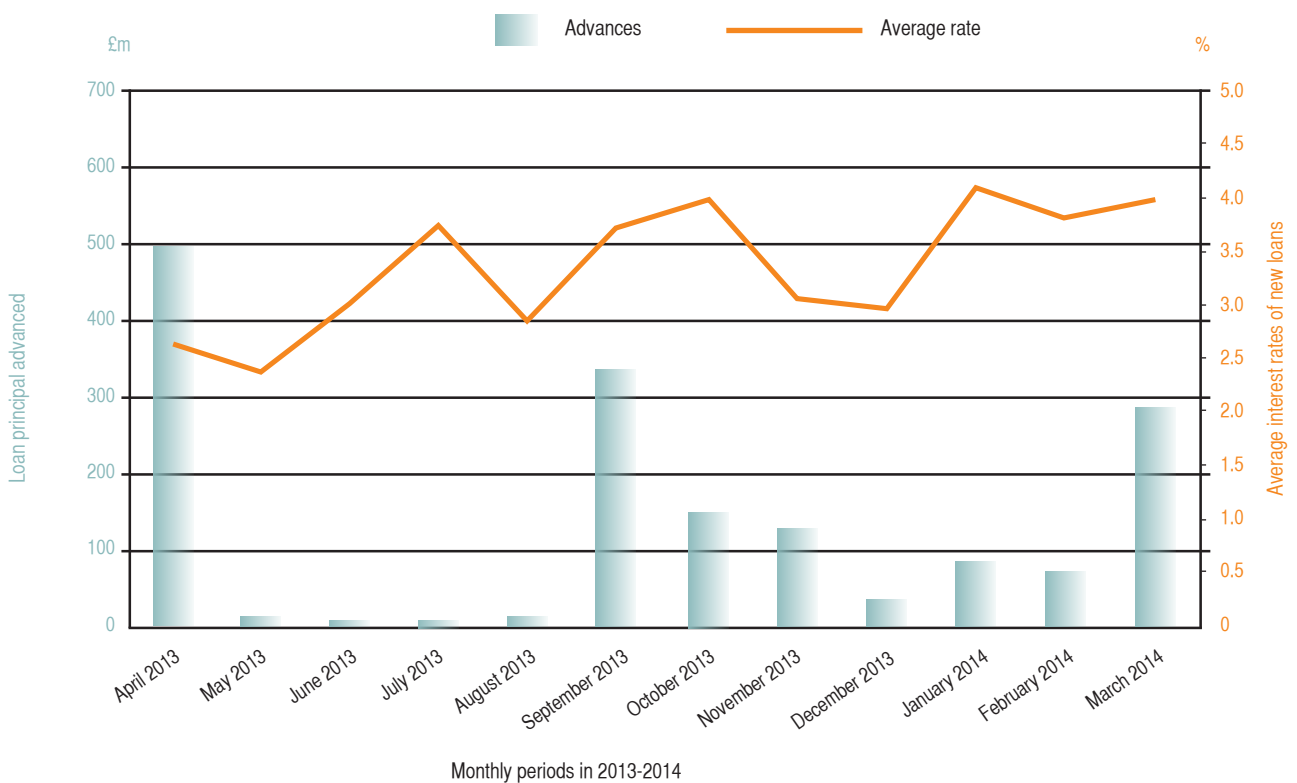


Figure 6: Amounts advanced and their term till maturity, month by month

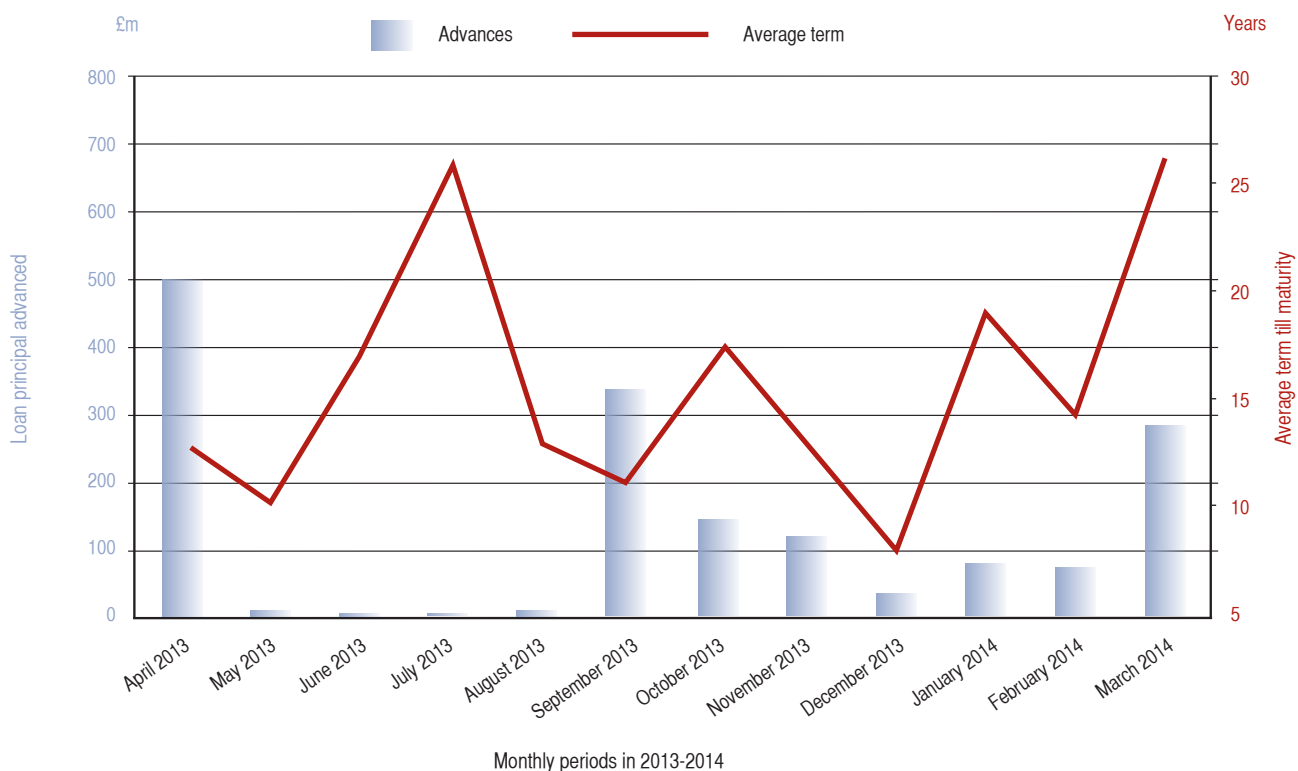


Figure 7: Amounts of fixed and variable rate loans advanced, month by month

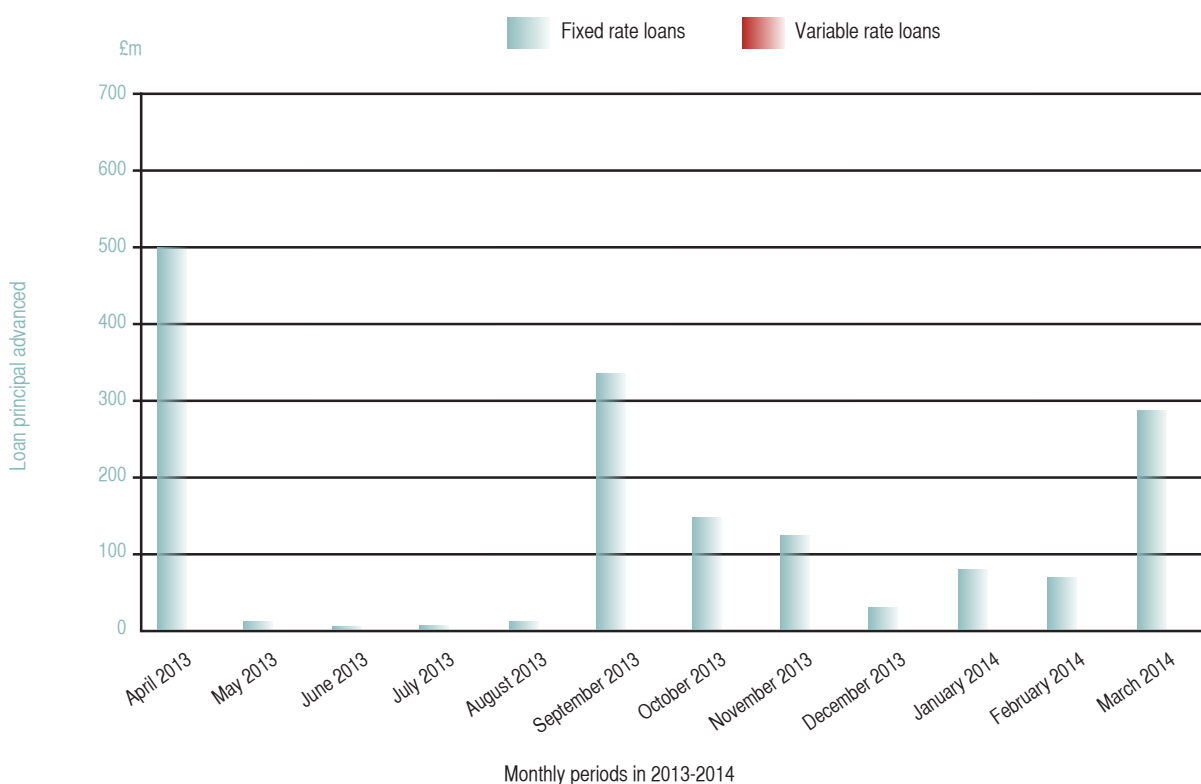


Figure 8: Average rate and term till maturity of advances, year by year

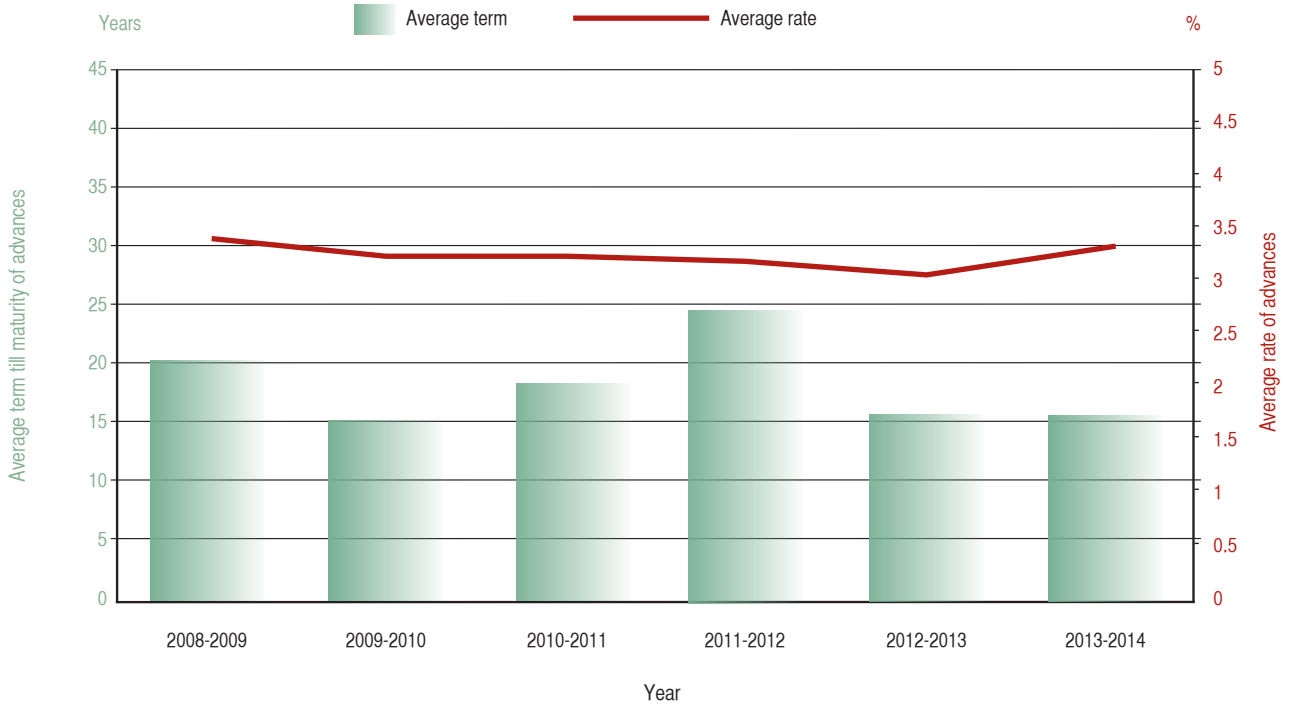


Figure 9: New loans by type and by term till maturity

Method of repayment	Period of repayment (£m)							Total
	Up to 5 Years	Over 5 but not over 10 years	Over 10 but not over 15 years	Over 15 but not over 20 years	Over 20 but not over 30 years	Over 30 but not over 40 years	Over 40 years	
<b>Fixed rate loans</b>								
Maturity	29	543	424	242	95	19	105	1,457
Annuity	2	10	6	16	12	3	4	53
Equal instalments of principal	3	11	10	21	69	-	-	114
	<b>34</b>	<b>564</b>	<b>440</b>	<b>279</b>	<b>176</b>	<b>22</b>	<b>109</b>	<b>1,624</b>
<b>Variable rate loans</b>								
Maturity	-	-	-	-	-	-	-	-
Equal instalments of principal	-	-	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>All loans</b>								
Maturity	29	543	424	242	95	19	105	1,457
Annuity	2	10	6	16	12	3	4	53
Equal instalments of principal	3	11	10	21	69	-	-	114
	<b>34</b>	<b>564</b>	<b>440</b>	<b>279</b>	<b>176</b>	<b>22</b>	<b>109</b>	<b>1,624</b>

### Scheduled and early 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, redeem a

loan early. In the case of an early redemption, the authority will repay the net present value of the future contractual cash flows, resulting in a discount or premium according to whether the lending rate at the time is higher or lower than the loan rate.

Figure 10 summarises early repayments in 2013-2014.

Figure 10: Early repayments

	Number of loans repaid	Principal repaid	Premium received	Discount paid	Net premiums/ discounts
		£m	£m	£m	£m
Fixed rate loans	59	191	28	-	28
Variable rate loans	20	38	-	-	-
	<b>79</b>	<b>229</b>	<b>28</b>	<b>-</b>	<b>28</b>

Early repayments of £0.2 billion were made during the year (2012-2013: £0.2 billion), compared to new advances of £1.6 billion (2012-2013: £3.2 billion).

The value of loan principal outstanding to borrowers fell by 0.5% year-on-year (2012-2013: 2.6% rise), to £63.2 billion from £63.5 billion at 31 March 2013.

### Repayments in arrears

There were less than £1 million overdue loan repayments at 31 March 2014 (31 March 2013: £303 million). Overdue loan repayments at 31 March 2014 have since been paid.

### Rates of interest

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

A detailed explanation of the methodology is available in a Technical Note on the PWLB website. Current and past rates of interest are also displayed on the website, [www.pwlb.gov.uk](http://www.pwlb.gov.uk).

The PWLB's fixed rates for four different maturities are shown in Figure 11 and variable rates are shown

in Figure 12, which also shows the Bank of England rate.

### Concessionary rates

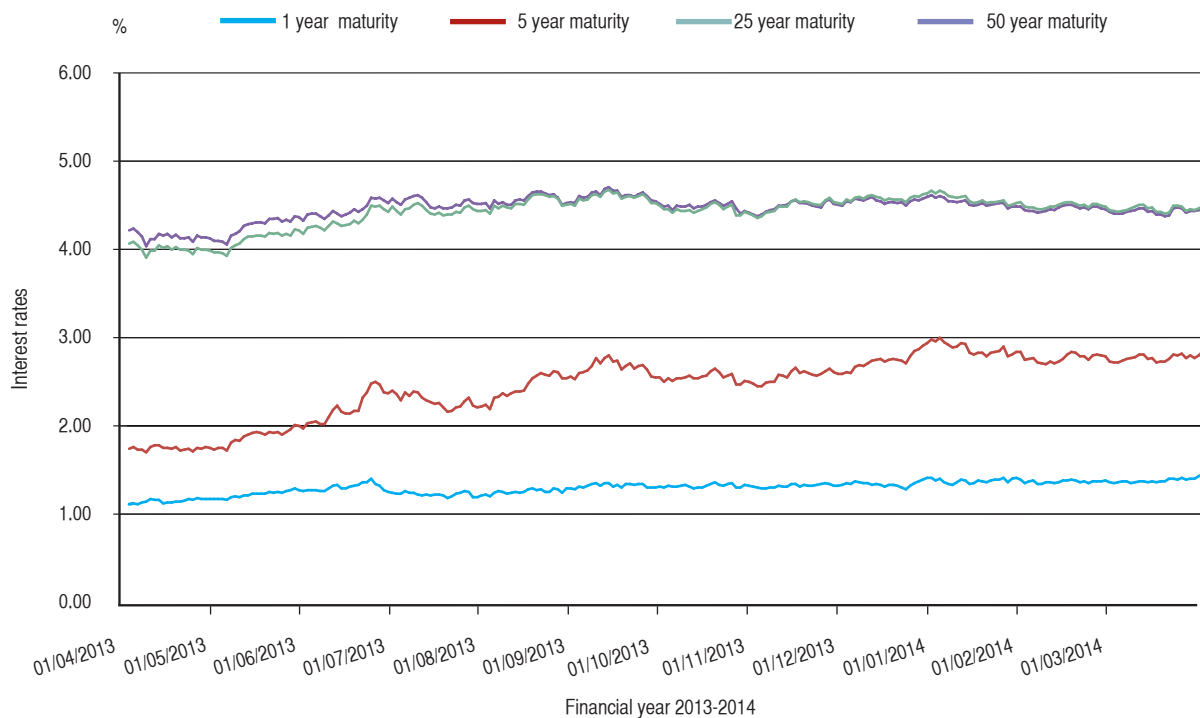
The PWLB offers loans at rates below the standard rate in accordance with certain schemes agreed with HM Treasury.

**The Certainty rate:** From 1 November 2012, HM Government reduced by 20 basis points (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. HM Treasury produced a list of Qualifying Local Authorities, which was published on the PWLB's website.

**The Project rate:** From 1 November 2013, HM Government reduced by 40 basis points (0.4%) the rates on loans from the PWLB to certain local authorities who were working with their Local Enterprise Partnership to deliver infrastructure projects. HM Treasury determined which local authorities qualified for this concessionary Project rate. The total value of loans available at the Project rate was £1.5 billion.

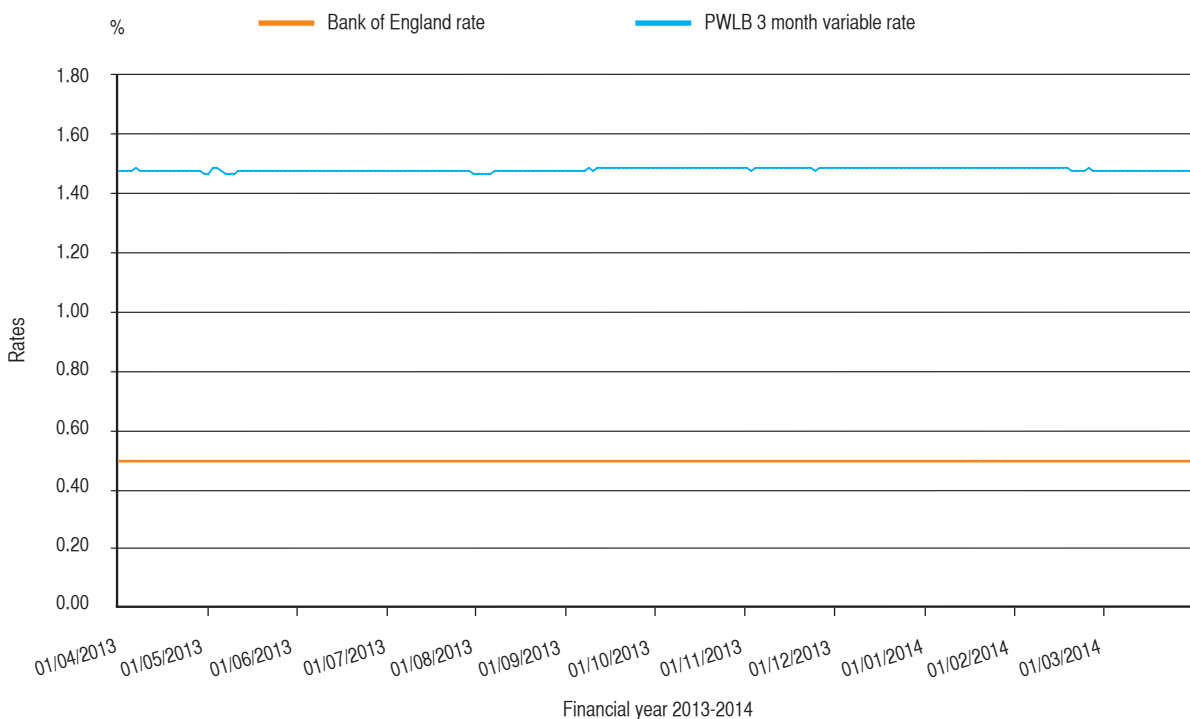


Figure 11: Fixed interest rates by term till maturity of loan\*



\* The interest rates shown relate to standard rate loans.

Figure 12: Bank of England rate and the 3 month variable rate\*



\* The 3 month variable rate shown relates to standard rate loans.

### Transfers of debt

The PWLB is prepared to transfer debt as appropriate, following local government reorganisation.

With effect from 1 April 2013, the debts of the Scottish police and fire authorities were transferred to the Scottish Government. Four Scottish police and fire authorities had loans with the PWLB at this date and these loans were all transferred to the Scottish Government.

### 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. There was

no occasion when the PWLB failed to meet these timetables.

### Future developments

Following agreement between HM Treasury and the National Assembly for Wales in June 2013, the Housing (Wales) Bill will abolish the Housing Revenue Account subsidy system in Wales. As part of the agreement, the local authorities retaining housing stock will need to buy themselves out of the subsidy system. The PWLB expects to help facilitate this event with new loans as required. The value of these new loans is not expected to exceed £1 billion.

**Mark Frankel**  
**Secretary, Public Works Loan Board**  
**6 June 2014**



# Statement of Secretary's responsibilities

The Public Works Loan Board prepares accounts under section 3 (6) of the National Loans Act 1968.

## Statement of Secretary's responsibilities

Under Section 3 (6) of the National Loans Act 1968 the Commissioners are required 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 Public Works Loan Board and its income and expenditure and cash flows for the financial year.

The Commissioners have appointed the Secretary to discharge their statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary has responsibility for preparing the annual accounts.

In preparing the accounts, the Secretary 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 Accounts Direction issued by HM

Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

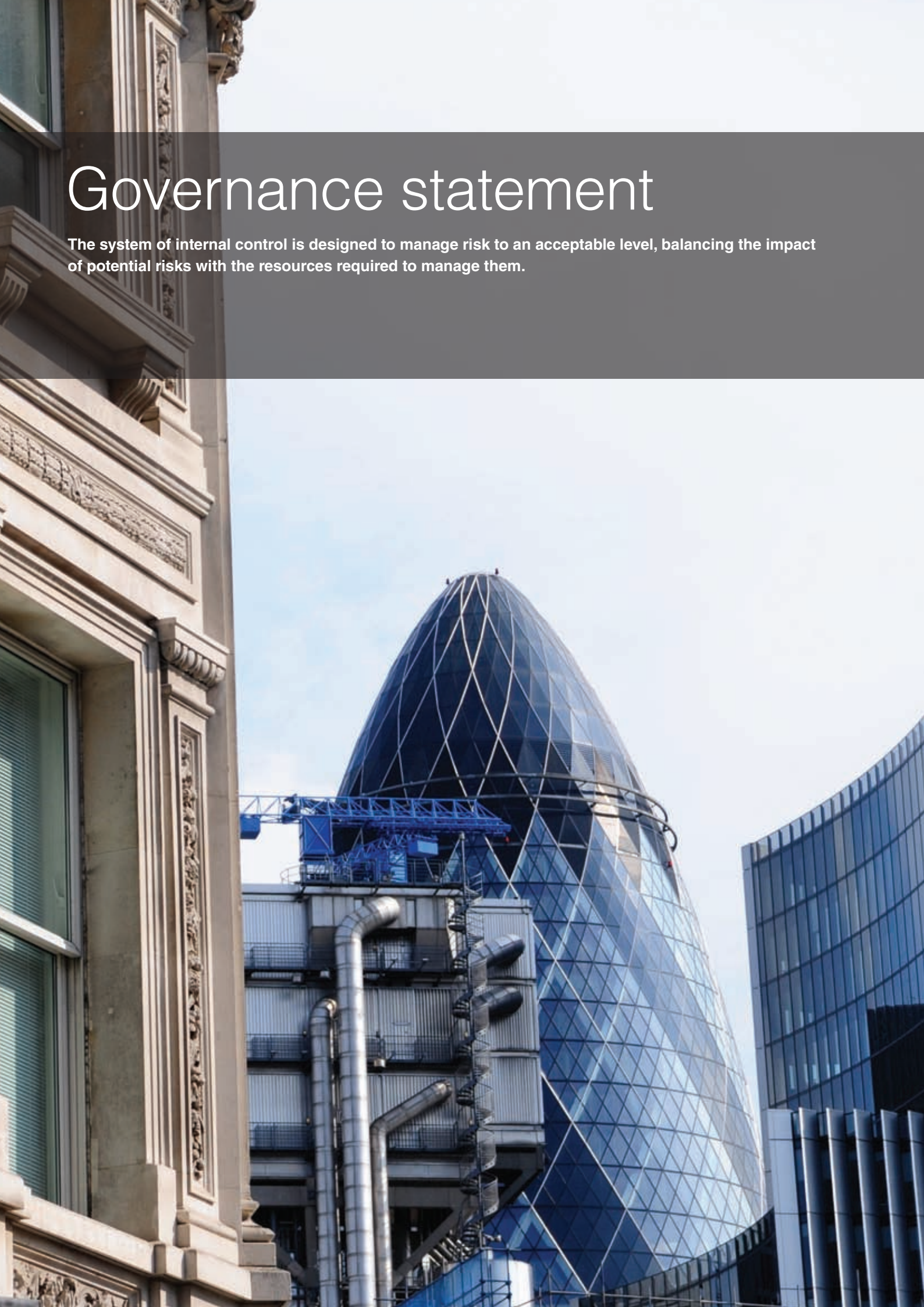
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

As the role of the Secretary is analogous to acting as an Accounting Officer, it is considered that the responsibilities of an Accounting Officer, as set out in Managing Public Money published by HM Treasury, apply to the Secretary. These include responsibility for the propriety and regularity of the public finances for which the Secretary is answerable, for keeping proper records and for safeguarding the Public Works Loan Board's assets.



# Governance statement

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them.



## Governance statement

### Scope of responsibility

The statutory role of the Public Works Loan Board Commissioners is to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. The Commissioners have delegated to the Secretary responsibility for authorising loans and collecting due payments. The Secretary is an employee of the United Kingdom Debt Management Office (DMO) and the day-to-day operations of the PWLB have been fully integrated within the operations of the DMO. The Secretary provides reports to the Commissioners on a monthly basis and attends the annual meeting of the PWLB Commissioners. At this meeting the Secretary will typically report on a number of items including loans advanced and due payments as well as ad hoc matters. This meeting, as well as the Report and Accounts, are the primary mechanisms through which the Commissioners are kept informed of the PWLB's operations. A fuller description of the roles and responsibilities of the Commissioners can be found in the foreword to this Report and Accounts.

As Secretary to the Board I am responsible for ensuring appropriate advice is given to the Commissioners 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.

PWLB is a separate statutory entity managed within the control framework of the DMO. While I am responsible for the PWLB's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which the PWLB 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.

The PWLB is committed 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.

The PWLB does not conduct any part of its business with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

### Managing Board

The Secretary was supported during 2013 - 2014 by the DMO Managing Board (the Board) which, in addition to the DMO Accounting Officer, is comprised of:

- Jo Whelan  
Deputy Chief Executive and Joint Head of Policy and Markets;
- Jim Juffs  
Chief Operating Officer;
- Joanne Perez  
Joint Head of Policy and Markets;
- James Richardson  
Non-executive HM Treasury representative;
- Brian Larkman  
Non-executive director - Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006; and



■ Brian Duffin

Non-executive director - Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007.

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 Secretary on any key decisions affecting the PWLB.

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

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a formal self-evaluation of its performance in 2013 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference. The Terms of Reference underwent a full review by the Board in 2012.

### 2013-2014 Managing Board activities

Board meetings were held regularly throughout 2013 - 2014. In addition to regular agenda items, including risk management, staffing and progress against the operational business plan, the Board paid particular attention to the implementation of the PWLB business integration project which incorporated PWLB front office and settlement activities into the wider activities of the DMO.

Board and Audit Committee attendance is outlined in the table below:

	Managing Board		Audit Committee	
	Possible	Actual		
Robert Steeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Joanne Perez	8	8		
James Richardson	8	6	Possible	Actual
Brian Larkman	8	7	4	4
Brian Duffin	8	7	4	4
Caroline Mawhood	n/a	n/a	4	4

### Audit Committee

The Secretary was supported during 2013 - 2014 by the Audit Committee on matters relating to risk, internal control and governance. The Audit Committee covers the activities of the DMO, DMA, CRND and PWLB. The members of the Audit Committee during 2013 - 2014 were:

- Brian Larkman (Chair);
- Brian Duffin;
- Caroline Mawhood - Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008 - 2009. She is a non executive member of the Audit Committees of the Department of Energy and Climate Change, the Food Standards Agency and the Corporation of London and an independent member of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breakthrough Breast Cancer charity and a trustee of the Wimbledon Guild charity.

Audit Committee meetings are typically attended by the DMO Accounting Officer, either or both of the Joint Heads of Policy & Markets, the Chief Operating Officer and the Head of Internal Audit. The Secretary of the PWLB also attends meetings when items relevant to the PWLB are due to be discussed by the Committee.

One of the Audit Committee's objectives is to give assurance to the Secretary of the PWLB that:

- High quality processes are in place to manage and control risk for the DMO's financial and non-financial activities;
- Overall governance arrangements are appropriate and operating effectively;
- The financial control framework is effective and supported by an appropriate compliance culture;
- External financial reporting is prudent, accurate, timely, appropriate and consistent with relevant guidance;
- Internal financial and management reporting is timely, prudent, appropriate and consistent with external financial reports;
- Whistle blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the PWLB's business are adequate; and
- Relationships with the National Audit Office (NAO) are effective.

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

- Business continuity planning, especially with regard to IT resilience and recoverability;
- Anti-money laundering controls;
- Anti-fraud controls;
- Regulatory compliance;
- Changes in government guidance for audit committees;
- Developing its focus on value for money assessment;
- Information systems security including key supplier data controls;
- Risk management and financial control;
- Implementation of audit recommendations; and
- External and internal financial reporting.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

The Secretary has also been informed by the following operational committees throughout the period under review:

#### ■ 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 Business Delivery Committee met regularly (typically weekly) throughout 2013 - 2014.

#### ■ Risk Committees

The Secretary receives advice from three risk committees covering credit and market risk, 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 Secretary is responsible for working within a sound system of internal control that supports the achievement of the PWLB's policies, objectives and targets, whilst safeguarding the public funds for which he is accountable, in accordance with the responsibilities assigned to him.

PWLB 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 risk management 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 robust business continuity arrangements.

#### ■ 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 these committees is described in more detail below.

#### Credit and Market Risk Committee

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. CMRC monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. CMRC met nine times during 2013 – 2014.

#### 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 considering whether planned mitigating action is appropriate. The Committee also reviews and tracks the progress of actions identified by Internal Audit. The Committee'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 Committee has focused this year on business continuity planning, in particular the resilience of IT infrastructure and improving data security arrangements. The Committee has also focused on work to help ensure continuity of skills in the DMO's technical IT teams to help address ongoing resource challenges. ORC met eight times during 2013 - 2014.

#### 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 action where appropriate.

During the year, the Controls Group review work has covered reform to PWLB lending rates, risk controls for IT change management, as well as various PWLB reconciliation items.

#### Risk Management Unit (RMU)

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. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal

and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

#### ■ Third line of defence:

The DMO's Internal Audit function provides the DMO 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 approved by the Audit Committee at the start of each year. All audits make a series of recommendations which, once agreed by management, are monitored for implementation. 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

in which risks are managed and controlled. The DMO 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 2013 – 2014 this included reviews of the DMO's Personal Dealing Rules as well as its Spreadsheet Management and Contract Management policies.

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 whistle blowing, fraud and 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.

### Risk profile

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

Principal risks and uncertainties	Mitigation and management
<p><b>IT systems and infrastructure</b></p> <p>The PWLB relies on a number of IT systems to conduct its operations. In particular, certain systems are central to the PWLB being able to advance loans and manage repayments in an effective and timely way.</p> <p>A number of the operational systems and services on which the PWLB relies are provided or supported by third party suppliers.</p>	<p>In 2013 – 2014, the DMO completed a major upgrade of its IT infrastructure to ensure that levels of support for key technology remain robust.</p> <p>The DMO has put in place comprehensive 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. These arrangements extend to cover the PWLB. In July 2013 the DMO experienced a disruption to parts of its IT hardware which affected the availability of some of its systems and data. The DMO was able to recover its core systems and data at its disaster recovery (DR) facility with no impact on market operations. Following the incident the DMO launched an external review into the resilience of its IT infrastructure and IT DR capability which resulted in a number of recommendations for action. The DMO has already introduced improvements in response and is working to further strengthen its IT</p>

Principal risks and uncertainties	Mitigation and management
	<p>infrastructure in this area.</p> <p>The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) and other arrangements has been revised to take account of the lessons learned from the incident noted above. BCP arrangements to support key PWLB activities were observed during the year with PWLB staff working from the DR site. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives, including those related to or affecting PWLB.</p> <p>The DMO is represented on the Public Finance Business Continuity Management Group and, in 2013, took part in a major cyber security exercise designed to test the impact of a significant cyber-attack on UK financial institutions and market infrastructure. The DMO participated alongside major banks, market infrastructure providers, city regulators and HM Treasury.</p> <p>To mitigate the risk of failure of a key third party, where appropriate, the DMO undertakes a corporate risk assessment of the potential supplier in order to assess financial strength and operational capacity. Additionally the DMO has dedicated relationship managers who conduct regular meetings with key suppliers and monitor performance against agreed Service Level Agreements.</p>
<p><b>Transaction processing</b></p> <p>The PWLB 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 to operational risk arising from process breakdown and human error.</p>	<p>A key component of the PWLB's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. In 2013, the DMO enhanced its segregation controls by consolidating the trade settlement activities of the PWLB function into its main Settlements Team. As part of this reorganisation PWLB front office activities were also integrated with the wider front office activities of the DMO. This has helped improve resilience by increasing cover levels as well as introducing process efficiencies.</p> <p>All teams, including PWLB, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.</p> <p>The RMU conducts regular control and compliance testing of PWLB activities, providing the executive sub-committee of the Board with assurance on the</p>

Principal risks and uncertainties	Mitigation and management
<p><b>People risk</b></p> <p>The DMO, including PWLB, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives.</p> <p>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 which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.</p>	<p>effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulatory Authority rules in the dealing and settlement areas.</p> <p>The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover PWLB. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board.</p> <p>DMO recruitment policies help 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 resulting in process failures.</p> <p>The DMO's Training and Development policy aims to ensure that its staff have the right skills to meet its objectives.</p> <p>The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.</p> <p>The DMO has also put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate 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.</p> <p>Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. In addition, the DMO has a policy to recognise those staff who have performed well in their roles through the payment of one-off performance related awards. Any awards are assessed annually by the DMO Pay Committee, are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.</p> <p>A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff.</p> <p>On an annual basis all DMO staff are encouraged to take part in the Civil Service employee engagement survey and any issues raised, including mitigating</p>

Principal risks and uncertainties	Mitigation and management
<p><b>IT and data security</b></p> <p>Through its activities, the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff. The DMO seeks to ensure the highest standards of data protection and information management. The DMO is exposed to risk of an external attack on its IT systems and infrastructure.</p>	<p>action if required, will be considered by the DMO Accounting Officer and Board.</p> <p>The DMO is accredited as an Investor in People.</p> <p>The DMO, including PWLB, 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-attacks. In 2013 the DMO invited experts from the National Audit Office (NAO) to facilitate a workshop for DMO staff which covered key cyber security risks and control strategies. In November 2013, standard control checks undertaken by the Settlements Team revealed that a small number of records were missing from a specific table in one of the DMO's databases, although the records were still present in other tables within the same database. Further investigation revealed the removal of the records to be an unintended consequence of work on a separate part of the system. The issue was manually corrected and had no impact on the DMO's ability to conduct operations, or its counterparties, with all affected transactions processed and settled on time. In response the DMO has strengthened user access controls for databases and enhanced monitoring of access routes and database changes. Work to further develop the DMO's IT security controls in this area will continue in 2014.</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 to defend against external attack and its infrastructure undergoes an annual penetration test to ensure the control environment is robust. The test is undertaken by specialists and forms part of the assessment against the Communications Electronic Security Group (CESG) requirements which is a condition for continuing connection to the Public Service Network (PSN). In response to the results of the test undertaken in 2013, the DMO improved security on its core networks and was reaccredited as a member of the PSN.</p>

## 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's aims and objectives has been in place throughout 2013 - 2014. 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 Secretary 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 Committee.

In 2013 - 2014, no ministerial directions were given and no material conflicts of interest have been noted by the Board or Audit Committee members in the Register of Interests.

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

**Mark Frankel**  
**Secretary, Public Works Loan Board**  
**6 June 2014**



# Certificate and report of the Comptroller and Auditor General



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

**I certify that I have audited the financial statements of the Public Works Loan Board for the year ended 31 March 2014 under the National Loans Act 1968. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.**

## Respective responsibilities of the Commissioners, the Secretary of the Public Works Loan Board and auditor

As explained more fully in the Statement of Secretary's Responsibilities, under Section 3 (6) of the National Loans Act 1968 the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. They appoint the Secretary to discharge these responsibilities on their behalf. My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Public Works Loan Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Public Works Loan Board; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword, Management Commentary, Statement of Secretary's Responsibilities and Governance Statement, to identify material inconsistencies with the audited financial statements and to identify

any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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.

## Opinion on regularity

In my opinion, in all material respects, 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.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Public Works Loan Board's affairs as at 31 March 2014 and of its operating surplus retained for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder.



### Opinion on other matters

In my opinion, the information given in the Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

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; or

- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### Report

I have no observations to make on these financial statements.

### **Amyas C E Morse**

Comptroller and Auditor General  
9 June 2014

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





# Financial statements and notes to the accounts

EXCHEQUER

In use



## Statement of comprehensive income

For the year ended 31 March 2014

	Note	2014 £m	2013 £m
Interest income	2, 3	2,913	2,892
<b>Operating income</b>		<b>2,913</b>	<b>2,892</b>
Interest payable to National Loans Fund		(2,913)	(2,892)
<b>Operating surplus retained</b>		<b>-</b>	<b>-</b>

The notes on pages 46 to 55 form part of these accounts.

## Statement of financial position

As at 31 March 2014

	Note	2014 £m	2013 £m
<b>Assets</b>			
Cash and balances at bank		129	81
Loans and advances	4	63,743	64,284
<b>Total assets</b>		<b>63,872</b>	<b>64,365</b>
<b>Liabilities</b>			
Amounts owed to National Loans Fund	7	63,872	64,365
<b>Total liabilities</b>		<b>63,872</b>	<b>64,365</b>

The notes on pages 46 to 55 form part of these accounts.

**Mark Frankel**  
**Secretary, Public Works Loan Board**  
**6 June 2014**

## Statement of cash flows

For the year ended 31 March 2014

	Note	2014 £m	2013 £m
<b>Net cash from operating activities</b>	8	<b>3,454</b>	<b>1,233</b>
<b>Financing activities</b>			
Interest paid to National Loans Fund		(3,138)	(2,796)
(Decrease) / increase in loan principal outstanding to National Loans Fund		(268)	1,595
<b>Net cash used in financing activities</b>		<b>(3,406)</b>	<b>(1,201)</b>
<b>Increase in cash</b>		<b>48</b>	<b>32</b>

The notes on pages 46 to 55 form part of these accounts.

# Notes to the accounts for the year ended 31 March 2014

## 1 Accounting policies

### (i) Basis of preparation

The accounts have been prepared in accordance with a direction given by HM Treasury and International Financial Reporting Standards (IFRS) in so far as they are appropriate to the PWLB, under the historical cost convention. In particular, the following standards have been applied:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements
- IAS 7 Cash Flow Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Balance Sheet Date
- IAS 18 Revenue
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement

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 24 Related Party Disclosures, which has been revised as part of the IASB's annual improvements process. Application is required for reporting periods beginning on or after 1 July 2014. The PWLB expects to apply these revisions to IAS 24 in 2015-2016. The application of these revisions, which clarify that entities as well as individuals may be considered as key management personnel and thus may be related parties of the reporting entity, is not expected to alter the disclosure of related parties of the PWLB.
- IFRS 9 Financial Instruments, which will replace IAS 39. No application date for IFRS 9 has yet been

issued. The content of IFRS 9 has not yet been concluded, but drafts indicate that the application of IFRS 9 is not expected to change the reporting of financial instruments in the PWLB.

### (ii) Financial assets and income recognition

The PWLB classifies its financial assets as loans and receivables under IAS 39 (Financial Instruments: Recognition and Measurement), which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The PWLB does not sell financial assets and so does not designate any loans and receivables as available-for-sale or held for trading.

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

All loans are recognised initially at fair value, normally the amount advanced to the borrower. Loans and receivables 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 early repayments, the actual cash flows and the expected lives of the loans cannot be estimated reliably. Thus premiums and discounts on early 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 premature repayment rates at 31 March 2014.

### **(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 early redemption, 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

	2014 £m	2013 £m
Contractual interest income for fixed rate loans	2,880	2,864
Contractual interest income for variable rate loans	5	6
Premiums received	28	22
	<b>2,913</b>	<b>2,892</b>

## 3 Interest income by country

	2014 England £m	2014 Wales £m	2014 Scotland £m	2014 Total £m
Fixed rate loans	2,295	153	460	2,908
Variable rate loans	4	-	1	5
	<b>2,299</b>	<b>153</b>	<b>461</b>	<b>2,913</b>

	2013 England £m	2013 Wales £m	2013 Scotland £m	2013 Total £m
Fixed rate loans	2,283	153	450	2,886
Variable rate loans	5	-	1	6
	<b>2,288</b>	<b>153</b>	<b>451</b>	<b>2,892</b>

## 4 Loans and advances

	2014 £m	2013 £m
Fixed rate loans principal	62,486	62,691
Variable rate loans principal	751	841
<b>Loan principal outstanding</b>	<b>63,237</b>	<b>63,532</b>
Accrued income on fixed rate loans	505	751
Accrued income on variable rate loans	1	1
<b>Accrued income</b>	<b>506</b>	<b>752</b>
<b>Value of loans outstanding</b>	<b>63,743</b>	<b>64,284</b>

## 5 Loan principal

### 5a Loan principal outstanding - fair value and weighted average interest rate

	2014 Loan principal	2014 Carrying value	2014 Fair value	2014 Weighted average interest rate*
	£m	£m	£m	%
Fixed rate loans	62,486	62,991	74,170	4.57
Variable rate loans	751	752	752	0.61
	<b>63,237</b>	<b>63,743</b>	<b>74,922</b>	<b>4.53</b>

	2013 Loan principal	2013 Carrying value	2013 Fair value	2013 Weighted average interest rate*
	£m	£m	£m	%
Fixed rate loans	62,691	63,442	79,553	4.61
Variable rate loans	841	842	842	0.62
	<b>63,532</b>	<b>64,284</b>	<b>80,395</b>	<b>4.56</b>

\* This excludes overdue payments.

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 premature repayment rates at 31 March 2014.

The weighted average period for which rates were fixed at 31 March was 23.0 years (2013: 23.6 years) for fixed rate loans.

At 31 March 2014, £2 million of loans (31 March 2013: £443 million) had been confirmed, but not yet advanced. Such loans are not included in the statement of financial position.

At 31 March 2014, there were no loans which borrowers had confirmed their intention to repay early (31 March 2013: no loans). Such repayments are not reflected in the statement of financial position.

**5b Loan principal outstanding – maturity analysis**

	2014 Principal outstanding £m	2013 Principal outstanding £m
Up to 1 month / repayable on demand	110	128
In more than 1 month but not more than 3 months	292	259
In more than 3 months but not more than 1 year	1,343	1,207
In more than 1 year but not more than 5 years	6,721	7,067
In more than 5 years but not more than 10 years	9,068	8,474
In more than 10 years but not more than 20 years	14,764	14,246
In more than 20 years but not more than 30 years	9,210	9,930
In more than 30 years but not more than 40 years	10,095	8,816
More than 40 years	11,634	13,405
	<b>63,237</b>	<b>63,532</b>

**5c Loan principal outstanding – interest rate profile**

	2014 Principal outstanding £m	2013 Principal outstanding £m
Up to 1 month / repayable on demand	273	309
In more than 1 month but not more than 3 months	454	455
In more than 3 months but not more than 1 year	1,740	1,619
In more than 1 year but not more than 5 years	6,636	6,975
In more than 5 years but not more than 10 years	8,431	7,777
In more than 10 years but not more than 20 years	14,764	14,246
In more than 20 years but not more than 30 years	9,210	9,930
In more than 30 years but not more than 40 years	10,095	8,816
More than 40 years	11,634	13,405
	<b>63,237</b>	<b>63,532</b>

This note indicates the period of the next re-pricing date for variable rate loans and the maturity date for fixed rate loans.

**5d Loan principal outstanding - analysis by country**

	2014 Principal outstanding £m	2013 Principal outstanding £m
England	51,697	52,022
Wales	2,775	2,788
Scotland	8,765	8,722
	<b>63,237</b>	<b>63,532</b>

**6 New issue, maturity and early redemption of loan principal**

	2014 £m	2013 £m
New loans	1,624	3,159
Loans maturing	(1,691)	(1,346)
Loans redeemed early	(229)	(198)
<b>Net (decrease) / increase in loan principal</b>	<b>(296)</b>	<b>1,615</b>

**7 Amounts owed to National Loans Fund**

	2014 £m	2013 £m
Loan principal outstanding to borrowers	63,237	63,532
Accrued income on loans to borrowers	506	752
	<b>63,743</b>	<b>64,284</b>
Loan repayments not yet surrendered to National Loans Fund	129	81
	<b>63,872</b>	<b>64,365</b>

## 8 Reconciliation of operating income to net cash from operating activities

	Note	2014 £m	2013 £m
Operating income		2,913	2,892
Decrease / (increase) in loan principal outstanding to customers	6	296	(1,615)
Decrease / (increase) in accrued income		245	(44)
<b>Net cash from operating activities</b>		<b>3,454</b>	<b>1,233</b>

## 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:

	Cash held at bank £m	Major local authorities £m	Parish councils and drainage boards £m	Harbour boards £m	Total £m
<b>2014</b>					
Cash and balances at bank	129	-	-	-	129
Loans outstanding to borrowers	-	63,430	311	2	63,743
<b>Total</b>	<b>129</b>	<b>63,430</b>	<b>311</b>	<b>2</b>	<b>63,872</b>
Loans confirmed but not advanced	-	2	-	-	2
<b>2013</b>					
Cash and balances at bank	81	-	-	-	81
Loans outstanding to borrowers	-	63,957	325	2	64,284
<b>Total</b>	<b>81</b>	<b>63,957</b>	<b>325</b>	<b>2</b>	<b>64,365</b>
Loans confirmed but not advanced	-	443	-	-	443

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 overdue loan repayments at 31 March 2014 (31 March 2013: £303 million). Overdue loan repayments at 31 March 2014 have since been paid.

There were no renegotiated loans or assets considered impaired at 31 March 2014 (31 March 2013: no renegotiated loans or impaired assets).

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

The risk of default is not perceived to have increased materially during the year.

The PWLB does not issue any financial guarantees.

#### *Risk management*

As stated on page 9, the PWLB Commissioners are legally required before making a loan to satisfy themselves that there is sufficient security for its repayment.

The PWLB obtains all necessary information from borrowers to gain assurance that the authority is acting appropriately and within the framework set out in the PWLB's circulars.

The PWLB lends only to local authorities and other prescribed bodies.

Loans to local authorities, together with related interest, are automatically secured by statute on all revenue streams of the borrower.

Parish, town and community council applicants for loans need borrowing approval from the Department for Communities and Local Government, 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 and 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 year ended 31 March 2014 (31 March

2013: no loans).

The PWLB does not differentiate borrowers by credit rating.

The PWLB continuously monitors its total 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 statutory body operating within the United Kingdom Debt Management Office, 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 its loans to borrowers are redeemed.

The total amount owed by the PWLB to the National



Loans fund at 31 March 2014 was £63,872 million.

The key management personnel of the PWLB, the Secretary and Assistant Secretary of the PWLB, had no transactions with the PWLB during the year and were remunerated by the United Kingdom Debt Management Office.

The Commissioners of the PWLB also had no transactions with the PWLB during the year.

## 11 Date of authorisation for issue

The Secretary of the PWLB has authorised these accounts for issue on 9 June 2014.

# Accounts Direction



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

1. This direction applies to the Public Works Loan Board.
2. The Public Works Loan Board shall prepare accounts for the year ending 31 March 2012 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.
3. 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.
4. 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.
5. 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.
6. The report shall include:
  - (i) a foreword
  - (ii) a management commentary, including information on financial performance and financial position; and
  - (iii) a governance statement.
7. This accounts direction shall be reproduced as an appendix to the accounts.
8. This accounts direction supersedes all previous Directions issued by HM Treasury.

**Chris Wobschall**

**Deputy Director, Assurance and Financial Reporting Policy, HM Treasury**

**23 March 2012**







**This publication is available in electronic form on the United Kingdom Debt Management Office (DMO) website [www.dmo.gov.uk](http://www.dmo.gov.uk).**

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

Alternatively, publications can be obtained from the DMO by telephoning 0845 357 6501.

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