Public Works Loan Board: future lending terms
Response to the consultation

November 2020
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Chapter 1

Introduction

Background

1.1 The local government finance system rests on the principle of local decision-making and local accountability. Local authorities (LAs) have broad discretion to determine how they deliver services, on the principle that they are best placed to decide how to support their local communities.

1.2 LAs set their own capital spending and financing plans in line with local priorities, within a statutory framework set by government and the Chartered Institute of Public Finance and Accountancy (CIPFA). This system of local decision-making is known as the prudential system.

1.3 The government supports local investment in part by offering low cost loans to LAs through the Public Works Loan Board (PWLB). The PWLB is the main lender to local government, accounting for around two thirds of LA debt. Following legislation passed in February 2020, PWLB loans are now legally issued by the Treasury. The name ‘PWLB’ has been retained because it is well established and widely recognised in the sector.

Recent developments

1.4 In recent years a minority of local authorities have borrowed substantial sums from the PWLB to buy investment property with the primary aim of generating yield. The National Audit Office estimates that LAs bought £6.6bn of investment property between 2016-17 and 2018-19. The government is clear that this is not an appropriate use of PWLB loans.

1.5 The government has worked with local authorities and sector representatives on a targeted intervention to put an end to this practice, without impeding LAs’ ability to deliver high-value local investment as they do now. In March 2020 the government launched a consultation on revised PWLB lending terms and guidance to implement this reform.

1.6 The aim of this consultation was to develop a proportionate and equitable way prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now.

1.7 The government received 217 unique written responses to this consultation from a wide range of stakeholders, and officials from HM Treasury and the Ministry for Housing, Communities, and Local Government (MHCLG) spoke
to over 130 people representing every class of authority, every region, and every nation that uses the PWLB, through a series of (virtual) roundtables.

1.8 The government has also announced it will introduce a new infrastructure bank for the UK. The bank will be able to lend local and mayoral authorities for key regional infrastructure projects. It will also be able to provide advice and support to these authorities on developing, financing, and delivering high priority local projects.

Government response to the consultation

1.9 Following this consultation, the government is publishing revised lending terms for the PWLB and guidance to support LAs to determine if a proposed project is an appropriate use of PWLB loans. These new terms will apply to all loans arranged from 9am on 26 November 2020.

1.10 The main features of the new lending terms are:

a) As a condition of accessing the PWLB, LAs will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. In order to minimise the administrative burden for LAs, this process is closely modelled on the existing application process that most large LAs follow to access the Certainty Rate (a discounted rate offered by the PWLB).

b) As part of this, the PWLB will ask the finance director of the LA to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on the finance director’s professional interpretation of guidance issued alongside these lending terms.

c) It isn’t possible to reliably link particular loans to specific spending, so this restriction applies on a ‘whole plan’ basis – meaning that the PWLB will not lend to an LA that plans to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.

d) When applying for a new loan, the local authority will be required to confirm that the plans they have submitted remain current and that the assurance that they do not intend to buy investment assets primarily for yield remains valid.

e) The government is committed to the prudential system and has no intention of routinely reviewing the purpose of individual loans. If HM Treasury has concerns that a loan may be used in a way that is incompatible with HM Treasury’s own duties to ensure that public spending represents good value for money to the taxpayer, the department will contact the LA to gain a fuller understanding of the situation. Should it transpire that an LA has deliberately misused the PWLB, HM Treasury has the option to suspend that LA’s access to the PWLB, and in the most extreme cases, to require that loans be repaid. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question.
1.11 The government will monitor the implementation of these reforms to make sure that the new lending arrangements are working as intended. MHCLG is reviewing the effectiveness of the local government borrowing and investment framework, and is developing options to intervene directly where there are concerns that authorities are not complying with the intent of the prudential regime.

**Interest rates on PWLB loans**

1.12 At the beginning of this consultation process the government announced the intention to cut the interest rate on new loans from the PWLB, subject to market conditions, once a workable system could be designed and implemented to ensure that this support would not be diverted into debt-for-yield activity.

1.13 Following close work with local authorities and sector representatives to develop these reforms, the government is now able to lower the interest rate of PWLB lending by 100bps for all new Standard Rate and Certainty Rate loans arranged from 9am on 26 November 2020.
Chapter 2
Overview

2.1 The government received 217 unique responses representing every class of local authority from every English region and from Scotland and Wales, and from some private organisations and individuals.

Table 2.A: Breakdown of responses

<table>
<thead>
<tr>
<th>Respondent category</th>
<th>Number of responses</th>
<th>Percentage of total</th>
</tr>
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<tbody>
<tr>
<td>Local authorities</td>
<td>190</td>
<td>88%</td>
</tr>
<tr>
<td>Organisations representing Local Government</td>
<td>9</td>
<td>4%</td>
</tr>
<tr>
<td>Consultancies for Local Government Treasurers</td>
<td>4</td>
<td>2%</td>
</tr>
<tr>
<td>Other organisations</td>
<td>9</td>
<td>4%</td>
</tr>
<tr>
<td>Individuals</td>
<td>5</td>
<td>2%</td>
</tr>
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</table>

Table 2.B: Breakdown of responses from local authorities by authority type

<table>
<thead>
<tr>
<th>Respondent category</th>
<th>Number of responses</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>County councils (England)</td>
<td>21</td>
<td>10%</td>
</tr>
<tr>
<td>District councils (England)</td>
<td>62</td>
<td>29%</td>
</tr>
<tr>
<td>Unitary authorities (England)</td>
<td>74</td>
<td>34%</td>
</tr>
<tr>
<td>Combined authorities (England)</td>
<td>5</td>
<td>2%</td>
</tr>
<tr>
<td>Council areas (Scotland)</td>
<td>11</td>
<td>5%</td>
</tr>
<tr>
<td>Principal areas (Wales)</td>
<td>8</td>
<td>4%</td>
</tr>
<tr>
<td>Parish and town councils</td>
<td>2</td>
<td>1%</td>
</tr>
<tr>
<td>Other (police, fire, waste, and transport authorities)</td>
<td>7</td>
<td>3%</td>
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2.2 Consultation responses were mostly received through the official PWLB consultation mailbox, with some received via the official consultation portal.
Chapter 3

Responses

Uses of the PWLB (Q1-3)

3.1 The purpose of this section of the consultation was to add to the government’s understanding of how local authorities use the PWLB and wider effects of the PWLB in the local government finance system.

Do you use the PWLB to support treasury management, for example by refinancing existing debt, or to externalise internal borrowing? (Q1)

3.2 Most authorities said they mainly borrow to fund their capital programmes. The majority of local authority (77%) respondents said that they also use the PWLB to support treasury management, mainly to refinance existing debt, externalise internal borrowing and to manage short-term liquidity needs. Most noted that treasury management represents a low proportion of total borrowing, as the majority of borrowing is used to finance their capital programmes.

3.3 Some local authorities (20%) said they did not currently use the PWLB to support treasury management, although many of these said they would consider doing so if interest rates fall low enough for this to be favourable. Some noted the widespread use of internal borrowing to minimise interest payments on external debt.

3.4 3% of local authority respondents did not answer.

How far do the lending terms of the PWLB affect the terms offered by private lenders? (Q2)

3.5 The majority (63%) of respondents who answered this question said the lending terms of the PWLB affect the terms offered by private lenders.

3.6 These respondents said that private lenders use the PWLB’s interest rates as a benchmark when setting their own rates. After the PWLB’s offered rates were increased in October 2019, there was an increase in the numbers of private lenders offering loans to local authorities, and an increase in the interest rate offered on private loans. They also said that ready access to the PWLB reduces the perceived liquidity risk of lending to local authorities and makes private lenders more willing to lend to authorities on favourable terms.

3.7 These respondents also noted that many private lenders offer more flexible lending terms than those offered by the PWLB, particularly more flexibility in drawdowns, deferred start dates, and early repayments. Additionally, some
suggested that restricting the activities local authorities can invest in while keeping access to the PWLB would make private lenders more wary of lending to local authorities.

3.8 16% of respondents suggested that the lending terms of the PWLB have little or no impact on the terms offered by private lenders.

3.9 37% of respondents had no opinion or gave no answer.

**Are there any other effects or uses of the PWLB beyond those described here? (Q3)**

3.10 The primary purpose of the PWLB is to support the construction or maintenance of capital assets. It also supports treasury management. Most respondents could not suggest any other uses or effects of the PWLB (45%) or had no opinion or gave no answer (37%).

3.11 Some respondents (33%) suggested other uses. The majority of these mentioned local authorities borrowing for on-lending to third parties (usually within the local authority area). Examples include lending to housing authorities, NHS Trusts, Citizens Advice Bureau, credit unions, joint vehicles and local authority companies which support housing, regeneration or other broader policy objectives. Some authorities also said they borrowed to fund policy schemes which deliver efficiency savings.

3.12 **Government response to Q1-3:** The government notes these responses.
Proposed changes to PWLB lending terms (Q4-9)

3.13 The government’s aim is to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now.

3.14 To implement this, the government proposed requiring each local authority to provide a high-level outline of their capital plan for the years ahead, categorising projects as service delivery, housing, regeneration, or the refinancing of existing debt, based on the s151 officer’s assessment of which category is the best fit for the project. The consultation included a draft of guidance that would support this decision. At the point of applying for a PWLB loan, applicants would be asked to confirm that this outline remained current and that the authority did not intend to buy commercial assets primarily for yield.

Do you think the proposal described in paragraphs 1.24 to 1.28 would be effective in achieving the aim set out in paragraph 1.22? (Q4)

3.15 Most respondents (58%) said the proposals would be fully or broadly effective at achieving the aims set out in the consultation.

3.16 Other respondents (35%) suggested that the proposals would address debt-for-yield activities, they would also deter investment in commercial assets that are supportive of wider measures such as regeneration and housing schemes. (The government is clear that housing projects would be an acceptable use for the PWLB). Some asked for more detailed definitions of ‘regeneration’ and ‘commercial activity’ to reduce the reliance on the interpretation of the s151 officer.

3.17 Some respondents raised concerns over the proposal that an authority’s borrowing should be made repayable on demand if the authority submits compliant plans to the PWLB but is then found to have done non-compliant investment activity.

3.18 Some also suggested that restricting an authority’s access to the PWLB access could affect the credit worthiness of that authority and so limit their ability to borrow from other lenders.

3.19 7% of respondents had no opinion or gave no answer.

3.20 Government response: The government believes that the general approach set out is the most effective way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield without disrupting their core activities. The government has refined the draft guidance in response to feedback received through this consultation. This guidance will

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1 Paragraph 1.22: “The aim of this consultation is to develop a proportionate and equitable way prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now.” Please see the full consultation document for the full proposal.
be published alongside the updated PWLB lending terms on the DMO website.

3.21 The government notes that some respondents called for more detailed definitions to support these decisions. The government has chosen to issue guidance rather than strict definitions because of the fundamental challenges of developing strict definitions that reliably give the intended categorisation when applied to something as diverse as local government. This is in line with the wider approach of the prudential system that recognises the complexity of the sector and draws on the expertise of the s151 officer.

3.22 The government will keep this guidance under review to ensure that s151 officers are able to confidently categorise expenditure in their capital plan.

Do you agree with the conclusion that LAs finance their capital requirement in the round, and that it is not therefore possible to meaningfully link PWLB borrowing to specific spending? (Q5)

3.23 The majority (82%) of respondents agreed with these conclusions. They agreed that authorities borrow when it is financially prudent to do so and they do not hypothecate debt to individual projects.

3.24 A small number of respondents (13%) suggested it may be possible for authorities to link borrowing to individual capital schemes, noting that many local authorities maintain several capital schemes for which they must demonstrate a specific link to individual financing components, such as the separation of the General Fund and Housing Revenue Account (HRA). Some respondents suggested that if debt-for-yield activity and its associated borrowing were ring-fenced, this could be used to prevent the use of PWLB resources for debt-for-yield schemes.

3.25 5% of respondents had no opinion or gave no answer.

If you answered ‘no’ to question 5, do you have an alternative suggestion? (Q6)

3.26 Some respondents (22%) suggested ways to link PWLB borrowing to specific spending. Generally, these alternatives suggested that local authorities could instead declare in their annual Capital Strategy whether the capital programme includes the acquisition of commercial assets, state how these assets will be financed (other than by PWLB), and make a declaration confirming that the PWLB will not be used to finance these assets.

3.27 78% of respondents suggested no alternatives or did not answer.

3.28 Government response to Q5-6: Given the challenges of reliably linking PWLB borrowing to specific spending, the restriction of access to new PWLB loans will apply if a local authority plans to buy an asset primarily for yield anywhere in their capital plan

Do you agree that the approach set out in paragraph 1.27 is a reasonable approach to the situation in which an LA borrowed from the PWLB and was subsequently found to

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2 Paragraph 1.27: “If an LA borrowed from the PWLB and was subsequently found to have pursued a debt-for-yield scheme despite the assurances given through the application process, HM Treasury would reserve the right to require loans in that year to be repaid on
have pursued a debt-for-yield scheme despite the assurances given through the application process? If not, how would you recommend that the government addresses this issue? (Q7)

3.29 The government proposed that if a local authority was found to have pursued a debt-for-yield scheme despite the assurances given through the application process, HM Treasury would reserve the right to require that the supporting loans be repaid on demand, subject to any applicable early repayment penalties. The government is clear that this situation is highly unlikely and would only occur after extensive discussion with the local authority in question.

3.30 The majority (64%) of respondents thought it reasonable for HM Treasury to have this option. Many stated that their support for this was dependent on refining the definitions given in guidance of ‘commercial assets’ and ‘debt-for-yield’. Some called for clear conditions which must be breached for HM Treasury to seek for a loan to be repaid, such as purchases over a certain value, and for any decision to follow direct engagement with the local authority.

3.31 Some respondents (24%) disagreed that HM Treasury should have this option.

3.32 A small number (4%) of respondents also expressed concern about the financial consequences if a local authority were required to repay a loan and meet any applicable early repayment charges. Some suggested that it would be more appropriate to limit new lending to the Authority for a period of time instead.

3.33 8% of respondents had no opinion or gave no answer.

3.34 **Government response:** If it appears that a local authority may have borrowed from the PWLB on the basis of information provided in the application that in the view of HM Treasury was materially incorrect or misleading, the government will notify the local authority and work with them to gain a full understanding of the situation. If it appears that there was a deliberate breach of the PWLB’s lending terms:

- a) as a condition of ongoing access to the PWLB, the LA will be required to provide additional information about their future capital plans, to assure HM Treasury that the plans do not contain any other activity that would not be an appropriate use of PWLB support. This would be a time-limited intervention until Government is satisfied that the risk of a further breach has subsided
- b) where the transaction was in clear breach of the rules, the government may also require that the local authority agree a plan to unwind the problematic transaction to a reasonable timetable
- c) finally, as a last resort, the government reserve the right to require that loans be repaid in full, with any applicable exit charges.

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“...demand, subject to the existing early repayment penalties. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the LA in question – but a safeguard is necessary to protect the taxpayer.”
Do you think that the proposal set out in paragraphs 1.24 to 1.28 would limit your ability to effectively manage your existing investment portfolio in a year in which you still wish to access PWLB borrowing for ‘accepted’ purposes? (Q8)

3.35 Some (19%) local authorities said that they had existing investment portfolios, some built up over decades, including some assets which were not specifically acquired for yield, but which are now held primarily as a source of rental income. Some authorities described employing an active management strategy which may include selling existing assets and replacing them with new ones.

3.36 The majority of respondents believed that their ability to actively manage these existing investment portfolios would be limited if they could no longer buy new commercial property primarily for yield.

3.37 Around half of respondents (48%) stated that the proposals would prevent local authorities from carrying out active portfolio management for their existing commercial assets. Many of these local authorities stated that they held sizable legacy commercial portfolios, some of which were not specifically acquired for yield, which could turn into ‘zombie portfolios’ if there is a total prohibition on new purchases.

3.38 These respondents suggested that local authorities should be allowed to purchase commercial assets for yield up to the amount of the proceeds from selling commercial assets, as part of treasury management. Separately, some respondents expressed concern that these proposals would prevent investments in commercial property for improvements, maintenance, or to boost their value in the event of a planned sale, and that authorities should be able to make these capital investments without losing access to the PWLB.

3.39 The remaining respondents (30%) said their ability to manage portfolios would be unhindered. Some authorities felt that their abilities would be unaffected as the proposals would only affect debt-for-yield schemes and they do not envisage investing in such schemes.

3.40 11% of respondents had no opinion or gave no answer.

3.41 **Government response:** The government’s assessment is that it is unlikely to offer good value for money for the taxpayer for local authorities to hold significant commercial property assets which are generating yield and serve no direct policy purpose. The government will not offer an exemption from these rules for the ‘active management’ activity described here.

3.42 Furthermore, the government would not expect long-term holdings of commercial property to form part of treasury management.

3.43 Local Authorities will continue to be able to access to the PWLB for spending to improve or maintain existing properties.

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3 Please see the full consultation document for the full proposal.
Do you have a view on when in the calendar or financial year this new system should be introduced? (Q9)

3.44 Half of authorities (52%) wanted the new system to take effect as soon as possible, and within the current financial year, especially if this was accompanied by a reduction in the interest rates offered on new PWLB loans.

3.45 Other respondents (26%) said that the proposed system should be introduced at the beginning of the next financial year in April 2021, so that local authorities could plan on this basis in the annual budget setting process and the agreement of new capital plans.

3.46 Some respondents (6%) suggested that they should be introduced in a later financial year to provide an even greater period of notice to adjust to the new lending terms.

3.47 16% of respondents had no opinion or gave no answer.

3.48 **Government response:** The new lending terms will be introduced immediately, effective 26 November 2020.

The government notes that CIPFA has advised local authorities to act as if the proposal given in the consultation have been in place since March 2020. The government does not therefore expect the formal confirmation of this system to disrupt local authorities’ plans.
**Scope and territorial extent (Q10-11)**

3.49 The PWLB lends to a range of local government bodies in England, Scotland, and Wales. These bodies can be broadly categorised as ‘larger’ bodies (covering county councils, district councils and unitary authorities in England; council areas in Scotland; principal areas in Wales; the Greater London Authority and mayoral combined authorities; police and crime commissioners, fire authorities, waste authorities; national park authorities, and certain other bodies) and ‘smaller’ bodies (including parishes, town and community councils, and drainage boards).

3.50 In general, larger bodies can borrow without explicit government approval, and smaller bodies obtain advance approval of their plans from the government.

**Do you agree with the proposal in paragraph 1.29 that these new lending terms should apply uniformly to larger LAs in England, Scotland, and Wales? (Q10)**

3.51 Most respondents (80%) agreed that the proposals should be applied uniformly to all larger local authorities in England, Scotland and Wales. Respondents strongly believed that it would be unfair for some local authorities to have different lending terms to others.

3.52 Some respondents (10%), mainly in England, suggested that the proposals should not be applied to certain large local authorities, mainly bodies in Scotland and Wales, on the grounds that there are already regulations in place which prohibit borrowing for debt-for-yield purposes, and which make the new terms unnecessary. Almost all responding local authorities from Scotland and Wales supported the lending terms being introduced uniformly.

3.53 Some suggested that it is not necessary to apply the new lending terms to police and crime commissions or fire and rescue authorities on the grounds that they have not been engaging in debt-for-yield. Some transport authorities and mayoral combined authorities also said that the new terms should not be applied to them on the grounds that they perform different functions to other local authorities.

3.54 Some respondents also suggested that these rules and access to the PWLB should be extended to districts in Northern Ireland.

3.55 10% of respondents had no opinion or gave no answer.

3.56 **Government response:** The new lending terms will apply uniformly to larger local authorities in England, Scotland and Wales. This will continue to include mayoral combined authorities, police and crime commissioners, fire authorities and transport authorities. The government does not anticipate that this will impede local authorities’ ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now. The government has no plans to extend access of the PWLB to local government bodies in Northern Ireland.
Do you agree with the assessment in paragraph 1.30 that it is not necessary to change the arrangement for smaller authorities? (Q11)

3.57 Some respondents (46%) agreed that it is not necessary for the proposals to be applied to parishes, town and community councils and drainage boards. These smaller authorities are unlikely to be engaging in debt-for-yield activity and applying the proposals to them would come with an administrative cost.

3.58 Some respondents (42%) disagreed, arguing that if the proposals are to be implemented uniformly, that should also include smaller local authorities. While most agreed that smaller authorities are unlikely to be engaging in debt-for-yield activity, it would mitigate the risk that some might start in the future. Additionally, some respondents suggested that larger local authorities that are unable to acquire commercial property may persuade smaller authorities to make the purchases instead.

3.59 The parish and town councils that responded to the consultation agreed that the lending terms should not apply to smaller authorities.

3.60 12% of respondents had no opinion or gave no answer.

3.61 **Government response:** The government will not extend these new lending terms to apply to parishes, town and community councils or drainage boards. Larger bodies should not attempt to route money through smaller bodies as a way to circumvent these rules. The government will keep this area under review and may revisit the approach if there is evidence of smaller bodies engaging in debt-for-yield.
Sharing plans with the PWLB (Q12-13)

The government proposes that you submit your plans for the year or years ahead. Over what period could you provide meaningful plans? (Q12)

3.62 Most respondents (61%) agreed that a three-year capital plan would be most appropriate, as local authorities are required under the Prudential Code to produce information for this time period. They also said that beyond this period the accuracy of the information would decline.

3.63 Some respondents suggested that local authorities could provide a capital plan for the next four or five years (23%) or up to 10 years (4%). Very few respondents suggested a time period of less than three years (2%).

3.64 12% of respondents had no opinion or gave no answer.

3.65 **Government response:** local authorities should submit their capital plans for the next three years (i.e. the current year plus the following two). Local authorities will be prohibited from accessing the PWLB if they plan debt-for-yield activity in any of the three years. They will be able to regain access if they revise their capital plans to remove these elements.

3.66 The new system requires that local authorities submit an up-to-date summary of their capital plans as a condition of accessing the PWLB. Rather than require a new submission for this new system, the Government will initially use the plans submitted through the 2020-21 Certainty Rate application process. Local authorities will be able to update these plans at any time through the DELTA data collection system maintained by the Ministry of Housing, Communities and Local Government (MHCLG), and will be asked to confirm when applying to the PWLB that the plans are current and that the s151 officer (or equivalent senior finance officer) is content that the entire capital plan is within the acceptable uses of the PWLB.

3.67 Some local authorities that are affected by these new arrangements did not submit plans for the Certainty Rate in 2020-21. These authorities will be required to provide this information before they can borrow from the PWLB. The Certainty Rate application form will be reopened to allow this.

This proposal would also require a short description of the projects in each spending area as set out in paragraph 1.34 to improve the government’s understanding of how the PWLB is used, but without putting an unreasonable reporting requirement on LAs. What level of granularity would give this understanding? For example: projects covering 75% of spending? Anything over £5 million per year? etc (Q13)

3.68 The government proposed that local authorities would share how much they plan to spend in each category of activity (service delivery, housing, regeneration, and refinancing) and provide a short description of the main projects as set out in paragraph 1.34 to improve the government’s understanding of how the PWLB is used, but without putting an unreasonable reporting requirement on LAs. What level of granularity would give this understanding? For example: projects covering 75% of spending? Anything over £5 million per year? etc (Q13)

4 Paragraph 1.34: “The government proposes asking how much the LA would spend in a set of categories, which would be developed through the consultation (we propose four categories – service delivery, housing, regeneration, and refinancing - see paragraphs 1.41 to 1.46). LAs would be asked to provide a short description of the main projects in each of these areas – for example, ‘installing LED streetlighting - £3m’. The purpose of this is to improve the government’s understanding of the activity the PWLB supports and monitor the effectiveness of this reform.”
projects in each of these areas. This would allow the government to monitor the effectiveness of this reform and improve the government’s understanding of the activity the PWLB supports.

3.69 Around half of respondents (49%) said that the right level of granularity for the descriptions of their plans was that a minimum percentage would be the most appropriate, with 75% being the most commonly suggested value. A minority of local authorities suggested either 50% or 30%.

3.70 Others (23%) suggested that a de minimis value would be most appropriate, with £5 million per year being the most frequent value in a range of between £1 million and £10 million. Some (8%) suggested a combined approach, where local authorities would only need to provide descriptions of projects above a de minimis value up to 75% of the capital plan.

3.71 Some respondents (14%) were concerned that due to the varying size of capital plans, there should be different reporting requirements for different authority-types, as it would not be possible to have an approach that would work for all authorities. For example, a de minimis value of £5 million would encompass most capital expenditure by some counties or metropolitan boroughs, but very little for certain districts, while 75% of a district’s capital plan would include a lot of smaller projects.

3.72 Some respondents also discussed the level of detail required in the project descriptions, mostly to note that in-depth descriptions should not be required as the projects are already accurately described within their annual capital programme.

3.73 6% of respondents had no opinion or gave no answer.

3.74 Government response: local authorities should share the amount of planned capital spending within each category of activity covering at least 75% of their capital plan.

3.75 The government believes that most local authorities give a good level of detail in their Certainty Rate returns and recommends that local authorities maintain this level or detail.
Defining and categorising activity (Q14-19)

3.76 The government proposed requiring local authorities to categorise their spending plans as either service delivery, housing, regeneration or refinancing, according to an assessment by the section 151 officer or equivalent of which category is the best fit for the project.

Do you agree with the approach in paragraph 1.38 that the section 151 officer of the applicant authority should assess if the capital plan is eligible for PWLB access, or would it be more suitable for another body to do this? (Q14)

3.77 The vast majority of respondents (93%) agreed the s151 officer or equivalent to be the appropriate person to make assessments of how to categorise projects within the capital plan.

3.78 A small number (1%) suggested the s151 was not the suitable person for assessing capital plans, arguing that leaving the assessment with one individual gives them with too much influence.

3.79 6% of respondents had no opinion or gave no answer

3.80 Government response: The s151 officer or equivalent senior finance officer is the most suitable individual to make such assessments of how to categorise projects within the capital plan.

Would you as an s151 officer feel confident categorising spending into the categories proposed here? If not, what would you propose instead? (Q15)

3.81 Many local authorities (44%) reported that their s151 officer would feel confident in categorising spending, and that the categories presented to them felt familiar and easy to use.

3.82 Nearly half of local authorities (47%) felt that the categories were relevant and appropriate but that the definitions provided could be improved. Specifically, they felt judgements of how to categorise investments could be subjective and so could vary from authority to authority, and that therefore further clarificatory definitions of ‘commercial activity’ and ‘regeneration’ were needed.

3.83 Some of these authorities expressed concerns that simply being aware that decisions could be reviewed in future, however infrequently, will make s151 officers less likely to sign off on projects if there is any uncertainty. They argue that the reputational risk to a s151 officer of having a decision overturned would be so great that they will be wary of signing off on a project that is not clearly within the allowed categories.

3.84 Some respondents (14%) took issue with including refinancing as a category, as it is a treasury management activity, not a type of capital expenditure. Others (8%) suggested that the refinancing category should be broadened to include externalising internal borrowing.

3.85 9% respondents had no opinion or gave no answer

3.86 Government response: The government notes that some respondents called for more detailed definitions to support decisions. The government has chosen to issue guidance rather than strict definitions because of the
challenges of developing strict definitions that reliably give the intended categorisation when applied to something as diverse as local government. This is in line with the wider approach of the prudential system and recognises the complexity of the sector and draws the expertise of the s151 officer.

3.87 The government is satisfied that the categories of service delivery, housing, and regeneration are suitable for encapsulating most capital spending by local authorities. The government notes that there is also a category of activity that involves direct investments in companies or other assets to prevent social or economic decline. The government consulted on draft guidance that included this activity as a subset of regeneration. Following discussion with local authorities and sector representatives, the government has concluded that this should be its own category in the guidance, because:

a) It is distinct from regeneration in that it aims to avoid the loss of activity rather than enable the addition of activity.

b) It is distinct from investment activity in that while it may generate yield as a by-product of the structure of the transaction, yield is not the primary motive.

c) It is also distinct from routine maintenance or refurbishment of existing assets.

3.88 The government has defined this activity in the published guidance as action with all of the following characteristics:

a) the intervention prevents a negative outcome, such as by buying and conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease

b) there is no realistic prospect of support from a source other than the local authority

c) the local authority has an exit strategy, and does not propose to hold the investment for longer than is necessary to achieve the objectives that justified the intervention

d) the intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a balance sheet asset.

3.89 The government anticipates that cases of preventative action are relatively rare.

3.90 It is also useful to gather information on refinancing where this is relevant for the demand for PWLB loans. The government considers the externalisation of internal borrowing to be equivalent to refinancing external debt, and so has expanded the original category of ‘refinancing’ into a broader category of ‘treasury management’ to cover both.

3.91 The government will keep this guidance under review to ensure that s151 officers are able to confidently categorise expenditure in their capital plan.
Would these proposals affect the ability of LAs to pursue innovative financing schemes in service delivery, housing, or regeneration? (Q16)

3.92 Some respondents (42%) suggested that proposals would have no effect on their ability to pursue innovative financing schemes in service delivery, housing, or regeneration. Some of these said there wouldn’t be any adverse effects but called for more detailed definitions of ‘commercial activity’ and ‘regeneration’.

3.93 However, some other respondents (40%) suggested that the proposals could have unintended consequences, primarily in the cases of regeneration or housing schemes that use commercial receipts to cross-subsidise or to encourage private sector partners to participate in the scheme. These authorities suggested that restricting commercial activity would limit their ability to pursue such schemes. The consultation document set out that the new lending terms would not prevent access to the PWLB for any capital expenditure in the housing category.

3.94 Some respondents also suggested that the proposals under discussion could be used as a way to challenge schemes that use innovative financial arrangements to deliver direct policy objectives, but which are locally contentious.

3.95 8% of respondents had no opinion or gave no answer

3.96 Government response: The government recognises that local authorities sometimes use elements of cross-subsidy and other innovative financing schemes when delivering capital projects, especially for housing and regeneration schemes. The government supports local authorities using these arrangements to deliver capital projects in service delivery, housing, or regeneration in ways that deliver best value for residents, and is confident that these new lending terms will not obstruct this. The government is clear that these new lending terms would not prevent access to the PWLB because of the financial arrangements of a housing project.

Are there specific examples of out-of-area capital spending for service delivery, housing, or regeneration that support policy aims? (Q17)

3.97 The majority of local authority respondents (59%) suggested that they have out-of-area capital projects that support policy aims. These examples given included housing schemes, shopping centres, schools, care homes, transport links and airports. These were all cited as supporting regeneration of the areas used by their residents, or as providing affordable transport and housing to workers who commute into their district. All were located in neighbouring localities in the local authority’s wider economic area.

3.98 Other examples cited were joint-investments by multiple authorities in shared services, such as shared emergency accommodation for rough sleepers or facilities for adult and children’s social care services.

3.99 A small number of local authority respondents (5%) said that they carry out some capital spending on green or renewable energy developments which support the local authority’s policy objectives to achieve carbon neutrality but were not necessarily located within the authority’s wider economic area.
3.100 The remaining local authorities said they did not carry out any capital spending out-of-area (22%) or did not answer (14%).

3.101 **Government response:** The government will not restrict local authorities’ ability to carry out capital projects in neighbouring districts or the authority’s wider economic area where these projects are for service delivery, housing, or preventative action, or regeneration.

**Would these proposals affect your ability to refinance existing debt? (Q18)**

3.102 The government proposed that local authorities would always be allowed to access the PWLB to refinance existing debt, even if they have commercial activity in their capital plans that would otherwise make them ineligible for PWLB support. 91% of local authority respondents said that refinancing would become more difficult in the absence of this condition.

3.103 Some suggested that the possibility that a local authority may lose access to the PWLB would make alternate lenders less willing to refinance existing debt, as guaranteed access to the PWLB strongly affects the terms offered by alternate lenders.

3.104 9% of respondents had no opinion or gave no answer

3.105 **Government response:** The government recognises the value of ready access to the PWLB as a way to refinance existing debt or externalise internal borrowing. Local authorities will therefore be able to access the PWLB to refinance debt or externalise internal borrowing, even if they are pursuing debt-for-yield projects that would otherwise make them ineligible for PWLB loans.

3.106 Local authorities must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans. Under the Prudential Code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes, and must not use internal borrowing to temporarily support investments purely for yield. The government will monitor how practice develops in this area.

**Would these proposals affect your ability to undertake normal treasury management strategies? If so, how, and how might this be avoided? (Q19)**

3.107 Half of local authority respondents (50%) said they would not be affected and would be able to undertake normal treasury management strategies.

3.108 Some authorities (37%) stated that they would be affected by the new lending terms, as they stated any proposal which could restrict access to the PWLB would make treasury management more complicated. A small number of authorities (3%) stated they would be affected as they are intending to take out loans for debt-for-yield purposes.

3.109 10% of respondents had no opinion or gave no answer.

3.110 **Government response:** These proposals would not prevent local authorities from undertaking normal treasury management strategies.
Impacts on people with protected characteristics (Q20-22)

Do you have any views about the implications of these proposed changes for people with protected characteristics as defined in section 149 of the Equality Act 2010? What evidence do you have on these matters? (Q20)

3.111 The majority of respondents (55%) did not envisage any implications from these changes on people with protected characteristics as defined in section 149 of the Equality Act 2010. Some suggested that there will be some impacts on people with protected characteristics but that these impacts would vary on a case-by-case basis.

3.112 Some authorities (20%) suggested there may be negative impacts on people with protected characteristics. These respondents primarily argued that the revenue generated from debt-for-yield investments is used to fund essential services, which disproportionately benefit people with protected characteristics. There was concern about the negative impacts of schemes being cancelled due to uncertainty over whether it is allowable under the new lending terms.

3.113 Some respondents misread the proposals as suggesting that local authorities would still be able to use the PWLB while doing debt-for-yield activity in their local areas, and suggested that this would mean that areas with lower available yields would be at a disadvantage relative to areas with higher available yields. The government is clear that local authorities must not pursue debt for yield at all if they want to maintain access to the PWLB.

3.114 23% of respondents had no opinion or gave no answer.

Is there anything that could be done to mitigate any impact identified? (Q21)

3.115 Most agreed there were no systematic impacts, and of those who disagreed, only a minority of respondents offered suggestions on how the impacts on people with protected characteristics could be mitigated. Many of these (22%) suggested allowing local authorities to continue to access borrowing from the PWLB even if the capital plan includes an element of commercial activity.

3.116 74% of respondents gave no answer or answered that they could not suggest a mitigation to any potential differential impact.

Is there anything else you would like to add on this issue? (Q22)

3.117 90% of respondents had no opinion or gave no answer. The other 10% of respondents answered this question with more general points about the reform, rather than about the impact of the reform on people with protected characteristics.

3.118 Government response to Q20-22: The government welcomes these contributions on the impact of these reforms on people with protected characteristics.

3.119 The implications of this policy for people with protected characteristics will depend on local decisions made by the local authorities themselves. Some people with protected characteristics are more likely to use local authority
services (older people, people with disabilities and people with children are more likely to use social care and education services) and some local authorities have a greater proportion of people with protected characteristics than the country as a whole (such as metropolitan boroughs that have a greater proportion of ethnic and religious minority residents).

3.120 The government is confident that stopping this practice will reduce the growth of exposure to financial risk for local authorities, against the counterfactual of not stopping this practice. The practice involves taking on long-term debt that is then repaid from the return on the investments. If these investments fail, the local authority would need to find an alternative way to keep up with their debt repayments, which could be significant. If they respond by cutting services, this would have greater negative impacts on people with protected characteristics. Insofar as the intervention prevents local authorities from taking on new risk in this way, it has a positive effect on people with protected characteristics.

3.121 These reforms will not affect the income that local authorities receive from existing assets. The reforms apply only to new transactions.

3.122 Additionally, at a national level, these investments are not an efficient use of public money as any commercial investment that is financed through the PWLB results in an equivalent amount of public money that is not available to be spent on national priorities. As many people with protected characteristics are more likely to benefit from central government services than the population as whole (e.g. those who are receiving treatment and care under the NHS or who receive welfare payments), preventing local authorities from acquiring commercial investments will disproportionately benefit many people with protected characteristics who are more likely to use these services.
The longer-term impact of loans (Q23-25)

Why did MRP fall as debt rose? Was the 2018-19 increase a one-off, or do you expect MRP to continue growing? (Q23)

3.123 Most respondents noted the difficulty in drawing general conclusions about Minimum Revenue Provision (MRP) as MRP practices are so dependent on the individual circumstances of each local authority. Most agreed that the changes in MRP have coincided with reassessments of how local authorities calculate their MRP.

3.124 Most respondents (41%) stated that in recent years a growing number of local authorities have changed their MRP calculations, usually from the Capital Financing Requirement (CFR) method to the Asset Life method, to reduce their MRP charges in response to reduced government grants. Over time, this saw a steady reduction in MRP while debt rose.

3.125 Further, they suggest the sudden rise in MRP in 2018-19 is explained by changes in the prudential framework made in December 2017. These changes altered the requirements for the ‘prudent’ calculation to clarify, amongst other things, that the MRP calculation cannot calculate overpayments retrospectively and that MRP cannot be negative, as well as introducing a maximum useful economic life of 50 years for assets.

3.126 Many respondents (22%) also added that these changes to MRP calculations combined with an increase in borrowing as local authorities took advantage of historically low interest rates, caused MRP to rise dramatically. Some respondents said higher borrowing was for the externalisation of internal borrowing, rather than to finance investments in commercial property.

3.127 There was no clear consensus on whether this increase was a one-off or whether the increase will continue, beyond agreement that any change will be much smaller than in 2018-19. Most of those who offered a view suggested that the total value of MRP will continue growing at a smaller rate, as there will be fewer local authorities making changes to their MRP policy, which means the total value of MRP will rise alongside an expected rise in borrowing (16%). A smaller number suggest that MRP will fall slightly following the sudden rise (3%).

3.128 37% of respondents had no opinion or gave no answer.

3.129 **Government response:** The government will continue to monitor Minimum Revenue Provision and how this is impacted by local authority borrowing decisions and total debt stock.

Why do you think the average loan length is increasing? (Q24)

3.130 Around half of respondents (49%) generally agreed that primary reason that average loan length is increasing is due to shape of the gilt yield curve, which makes it cheaper for local authorities to borrow longer-term. While some authorities would previously tend to borrow for 25 year terms, the current shape of the yield curve usually inverts at some point after 20 to 30 years, which means that the interest rates offered encourage local authorities to borrow either for shorter periods (less than 10 years) or as close to the 50 year maximum as possible.
3.131 These respondents suggest that it is financially advantageous in the long-term, as the interest rates for borrowing at 50 years have been around 26 bps lower than for 25 years, whereas as recently as six years ago they would have been higher. Additionally, some local authorities also stated that, especially prior to the change in the margin on PWLB rates in October 2019, the rates were low enough that it was likely that inflation would be greater than interest costs over the lives of these loans, which makes longer-term loans more attractive.

3.132 Some respondents (13%) argued that local authorities would prefer not to borrow for longer terms, as it significantly increases the total cost that needs to be repaid over the lifetime of the loan, but they take out longer loans in order to reduce the repayment costs in the short-term to allow them to focus their available funds on service delivery. These respondents suggested that the reductions in grant and the rising costs of services are the main driver for the average loan length increasing.

3.133 Other respondents (24%) suggested other motivations, primarily that the increase is due to local authorities choosing to link the term of the loan to the expected life of a particular asset and that the increase in average loan lengths is due to the lifespan of buildings increasing owing to Government regulations and a focus on sustainability by local authorities. Some of these authorities noted that some capital projects have lifespans greater than 50 years and so it would be useful for the maximum loan term to be increased. Some suggested that LAs have been borrowing long-term to lock in low interest rates.

3.134 14% of respondents had no opinion or gave no answer.

3.135 Government response: The government will continue to monitor the structure of PWLB loans.

What impact would changes to the maximum available length of loan, and/or the existing offer of repayment methods, have on your finances? (Q25)

3.136 The majority of respondents (80%) suggested that reducing the maximum available length of loan would be detrimental to local authorities. Generally, it was agreed that having the option of longer loans makes it easier to invest in assets such as social housing with an expected useful life of more than 50 years. They suggested that reducing the maximum available loan length would likely increase maturity peaks in the maturity profile, increase refinancing risk for local authorities and make the matching of loan maturities against MRP harder to manage. Despite this, many respondents also suggested that changes to the type of loans on offer would have more impact than the loan length.

3.137 A small number of respondents (3%) stated that reducing loan lengths would not increase the lending capacity of the PWLB or address the problem of principal being tied up for longer, as local authorities would just take out two consecutive 25 year loans instead of a 50 year one – this would increase the interest rate risk, but they suggest 25 years would be far enough in the future to plan for.
3.138 A few respondents (5%) responded that reducing the maximum loan length would have no impact and 2% of respondents suggested that it would be positive. These respondents suggested that reducing the maximum loan length to 40 years would have little impact, but any period lower than this would cause the annual MRP costs to rise.

3.139 Respondents generally only addressed the maximum loan term, but a small number (4%) of local authorities discussed shortening the minimum loan length, proposing that PWLB loans of less than one year, available at short notice, as a form of “bridging loan” or liquidity could be useful additions.

3.140 10% of respondents had no opinion or gave no answer.

3.141 **Government response:** The government has no plans to change the maximum loan length or repayment methods for PWLB loans.
Application time (Q26-28)

What are the benefits of the existing two-day turnaround time for PWLB loans? (Q26)

3.142 All the responses reported that the short turnaround time for PWLB loans is highly beneficial for local authorities. The main benefit cited was that the assurance of near immediate access to funds provides significant flexibility to defer any borrowing until the time it is needed, which reduces cost and complexity in capital programmes.

3.143 Respondents also reported that the short turnaround time reduces the need for short term borrowing, which ensures that authorities don’t need to resort to borrowing at unfavourable rates from alternative lenders to meet liquidity issues.

3.144 Many respondents also noted that the quick turnaround time enabled authorities to take advantage of low interest rates and reduces the risk of rates moving significantly between arrangement and execution of the borrowing transactions.

3.145 Additionally, many respondents noted that the Covid-19 pandemic increased in local authorities’ cash needs with very little notice, and that the PWLB’s short turnaround time helped meet this need.

3.146 10% of respondents had no opinion or gave no answer.

What would the impact be of increasing the time between loan application and advance – for example, to three or five working days? (Q27)

3.147 Most respondents (53%) reported that that increasing the turnaround time would have minor negative impact. A minority (7%) described a strongly negative impact. Some suggested that the two-working-day turnaround time is comparable to that offered by alternative lenders and argued that extending the turnaround time would lead to negative outcomes. The main impact identified was that LAs would find it harder to meet unexpected costs and so would increase their reserves or borrow more from private lenders.

3.148 Some respondents (30%) suggested that increasing the turnaround time would have little or no negative impact.

3.149 A minority of respondents (7%) agreed with the reasons cited above but said that the impact would be strongly negative. Most of these respondents said that, while the quick turnaround time is an important feature of the PWLB, it is not as important as other features such as the maximum loan length and loan type available.

3.150 10% of respondents had no opinion or gave no answer.

How long could the turnaround time be for a PWLB loan before the PWLB becomes less attractive? (Q28)

3.151 Most respondents (54%) said that any increase in the turnaround time beyond the current two working days would make the PWLB less attractive. Many of these respondents also noted that a longer turnaround time would not necessarily make the PWLB less attractive than alternative sources of lending.
3.152 A quarter of respondents (25%) suggested that the turnaround time could be increased by a number of days without making PWLB loans less attractive. Of these, the most common turnaround time suggested was up to a week, with some suggesting up to 14 days.

3.153 16% of respondents had no opinion or gave no answer.

3.154 **Government response to Q26-28:** The government does not intend to change the default two-working-day turnaround time for loans.
Early repayment and novation of PWLB debt (Q29-32)

Do you have any PWLB debt that would you like to repay early? If so, what is the total value of this debt and at what price/discount would this be viable? (Q29)

3.155 Around a third of local authority respondents (37%) could identify some PWLB debt that they would be interested in repaying early, mostly as part of debt restructuring. Most of this related to older PWLB debt taken out more than 20 years ago, in some cases by another authority prior to a reorganisation, at interest rates ranging between 4% and 10%. A large number of authorities said they had HRA debt that they would want to repay early.

3.156 However, these authorities also responded that in most cases the premature repayment interest rate that applies to the residual term of a repaid loan is too low for early repayment to be appealing in current market conditions. This makes it more cost effective for an authority to simply retain the debt to its original maturity. It was suggested that the premature repayment interest rate would need to be above gilt yields at a minimum to consider repaying early, but in practice they would need to be much closer to new loan rates to make it attractive for these authorities to repay early.

3.157 Not all respondents provided a total value of the debt that they wanted to repay early but using the values of those that did showed that there was interest in repaying debt early from at least 37 local authorities from a range of classes.

3.158 The remaining local authorities said that they did not have any PWLB debt that they would be interested in repaying early (33%) or that the question was not relevant as they do not currently hold any PWLB debt (37%). However, these respondents generally agreed that the repayment terms mean it is not worthwhile to repay early.

3.159 3% of local authorities did not answer.

3.160 Government response: The government notes these responses and will continue to engage with local authorities that have unwanted debt they want to repay early.

How much PWLB debt would you transfer to other LAs if you could? (Q30)

3.161 Allowing local authorities to transfer the remaining principal and obligations from one authority to another has been suggested as a way for local authorities to discharge unwanted PWLB debt, as an alternative to repaying early. In general, the local authorities that considered transferring PWLB debt to another authority identified the same type of debt that local authorities were interested in repaying early - older debt at higher interest rates.

3.162 Only a small number of authorities (10%) said they would be interested in transferring this debt to another authority, and then only if the terms were favourable. These respondents suggested this could be beneficial as it would enable some authorities to discharge unwanted PWLB debt while enhancing liquidity in the sector and allowing for a reduction in overborrowing where this may exist. Some respondents suggested that the PWLB could centrally
manage such a system by identifying and facilitating the optimal transfer of loans from over-borrowed authorities to under-borrowed authorities.

3.163 Other authorities (21%) said that, while they might be interested in transferring PWLB debt to another authority, they did not believe it could work in practice. The main reasons for this were that it is likely that only authorities with high-interest PWLB debt would be interested in transferring debt, but under these circumstances it would be more expensive to take on debt from another authority than it would be to simply borrow from the PWLB. Some respondents suggested that it could be workable if the debt is discounted to a neutral rate before being transferred, but under these circumstances it would be more beneficial to just allow the authority to repay early.

3.164 The remaining authorities were uncertain about the idea, mostly explaining that they would need to see what the terms were before reaching a conclusion (14%), or that they would not be interested in transferring any of their PWLB debt, primarily due to being under borrowed (33%).

3.165 22% of local authorities did not answer.

If novation were permitted, under what circumstances would you take on debt from another LA rather than taking on new borrowing from the PWLB or another source? (Q31)

3.166 Most local authority respondents (68%) said that the primary reason they would consider taking on debt from another authority, if novation were permitted, would be where the interest rates were cheaper than the current PWLB rates. A small number of respondents also suggested that an authority may want to take on debt from another authority in order to avoid any stricter conditions associated with alternate lenders.

3.167 The remaining authorities (24%) said they would not be interested in taking on debt from another authority under any circumstances. Many respondents repeated the points made in response to question 30, i.e. that would be difficult to see how this system could work in practice as only authorities with high-interest PWLB debt would be interested in transferring debt to another authority, and that removing the penalties on early repayments would be the easier and preferred option.

3.168 8% of local authorities did not answer.

3.169 Government response to Q30-31: The government has no plans to introduce novation of PWLB debt.

Are there any other barriers to discharging unwanted PWLB debt? (Q32)

3.170 The vast majority of respondents (85%) reported that the main barrier to discharging unwanted PWLB debt is the high premiums on early repayments, and that there are no other significant barriers. The only additional barrier identified was specific to Scottish Council Areas, namely that while in England and Wales regulations permit the cost of the premium incurred on early redemption to be spread over the remaining life of the loan, in Scotland the cost of premiums can only be spread over five years.
3.171 15% of respondents had no opinion or gave no answer.

3.172 **Government response**: The government notes these responses.
Slowing lending in extraordinary circumstances (Q33-34)

Should HM Treasury introduce a process by which borrowing by an individual authority might be slowed or stopped without affecting PWLB access or terms for other LAs? (Q33)

3.173 Approximately half of respondents (48%) agreed that it would be reasonable for HM Treasury to introduce a process to slow or stop lending to individual authorities. Local authorities generally stated that it would be preferable for HM Treasury to target the authorities which have been doing the most debt-for-yield activity, as opposed to restricting access for all authorities.

3.174 Many respondents noted that HM Treasury already has the power to introduce such a process and suggested that it would be helpful for the Treasury to set out the specific circumstances in which this power might be used.

3.175 Some respondents (21%) said that all local authorities should have the same access to the PWLB, and that it would create uncertainty about the availability of funding and might make treasury management difficult if the PWLB stopped lending to an authority.

3.176 The remaining respondents (22%) gave mixed answers. Most were open to some mechanism to reduce or slow the lending to individual authorities in a way which would fall short of stopping lending completely. These suggestions included considering the extent to which an authority is under-borrowed (relative to their Capital Financing Requirements), setting a limit up to which it can borrow from the PWLB without sanction (based upon an income multiple), or extending the turnaround time for approving a loan application for individual authorities. Some authorities also suggested that HM Treasury should be able to stop lending to specific local authorities which have been excessively carrying out debt-for-yield practices, but noted that this will become unnecessary if the proposed changes were made to the lending terms.

3.177 9% of respondents had no opinion or gave no answer.

Under what circumstances should this process be applied? (Q34)

3.178 Respondents generally argued that any process whereby lending to an individual local authority was slowed or stopped should require HM Treasury to first notify the authority and seek further clarification for the activity being undertaken. Some respondents (17%) suggested that it would be appropriate for HM Treasury to begin such a process if it believed the authority’s activity to be disproportionate, provided the authority was notified in advance.

3.179 Most respondents (35%) called for a set of published conditions which must be breached before lending will be slowed or stopped. Some of these specified the need for clear criteria, such as if an authority engages in activities which HM Treasury has specifically defined as inappropriate, if borrowing has exceeded a certain threshold, if an authority’s reserves are less
than a percentage of turnover, or if an authority did not disclose the required information or spending plans.

3.180 Some respondents (20%) suggested that HM Treasury should be allowed to slow or stop borrowing only in circumstances such as where the activities of the authority were not what they reported when applying for the loan, or where it could jeopardise PWLB availability for other authorities. Others (11%) said that under no circumstances should HM Treasury slow or stop lending to any individual authority.

3.181 17% of respondents had no opinion or gave no answer to the question.

3.182 Government response to Q33-34: Parliament expects HM Treasury to ensure that public spending represents good value for money to the Exchequer and aligns with relevant legislation. HM Treasury can only transfer public resources if the Accounting Officer is satisfied that the resources will be used in ways that comply with these duties. This includes loans through the PWLB.

3.183 In some exceptional cases, HM Treasury may have concerns about the intended use of a PWLB loan. In these circumstances, the government would use existing powers to delay the advance of the loan and notify the authority and work with them to gain a full understanding of the situation. More detail on this is set out in guidance on the DMO website.
Debt Management Account Deposit Facility (Q35-36)

Do you use Debt Management Account Deposit Facility (DMADF) currently, and if so, why? (Q35)

3.184 Most local authority respondents (61%) said that they are currently using the Debt Management Account Deposit Facility (DMADF) as a part of their treasury management strategy. The primary reasons for using DMADF were general diversification and making short-term deposits (sometimes overnight) to ensure that the authority’s current account balance does not exceed the limit permitted within its treasury management strategy. In these cases, DMADF is viewed as the most secure option for depositing funds while retaining easy access. Additionally, many authorities said DMADF offers higher security deposits during times of increased market turbulence or when the credit security of alternative depositories is questioned.

3.185 Some noted that they first put deposits in Money Market Funds and other low-risk investments, up to relevant limits, and put any excess in the DMADF.

3.186 The remaining authorities (36%) said that they did not currently use DMADF, although many have done so in the past. The main reason suggested was that better returns can be achieved from other investment facilities, such as Money Market Funds.

3.187 3% of local authorities did not answer.

What would make you increase your use of DMADF? (Q36)

3.188 Almost all local authority respondents said that they would make greater use of DMADF if there was an increase of interest rates on deposits relative to those offered by Money Market Funds. Some authorities (38%) said that the interest rates on deposits was the only consideration.

3.189 About half of authorities (49%) said that, in addition to low interest rate, they would increase their use of the DMADF if they did not need set a maturity date up-front and if deposits were rolled over automatically without needing to reinvest. Other suggested features were offering a notice account so that deposits can be called back ahead of the maturity date and offering deposit periods of longer than six months.

3.190 Some respondents (10%) also suggested that the government could consider offering short-term loans to local authorities through the DMADF, in addition to taking deposits. It was suggested that this would complement the long-term borrowing function of the PWLB and reduce external borrowing, especially if DMADF offered lower interest rates than alternative lenders. It was also suggested that DMADF should also accept deposits from Districts in Northern Ireland.

3.191 3% of local authorities did not answer.

3.192 Government response to Q35-36: The government notes these responses.
**Alternative lenders (Q37-39)**

**Does your LA actively consider borrowing from alternative lenders to finance capital investment? (Q37)**

3.193 The majority of local authority respondents (84%) said they actively consider or currently do borrow from alternative lenders to finance capital investment. Only a small proportion (14%) said they have not actively considered borrowing from alternative lenders, although some of these authorities suggested they may do in future.

3.194 2% of local authorities did not answer.

**If you answered ‘yes’ to question 37, what are the reasons that would inform your choice to borrow from other providers? (Q38)**

3.195 Of the local authorities who said that they actively consider or currently do borrow from alternative lenders, almost all said the main reason was getting a lower interest rate than the rates offered by the PWLB. Most authorities (56%) stated that price was the only significant factor.

3.196 In addition to interest rates, some authorities (25%) valued the relative flexibility of private lenders, including terms such as being able to borrow with lower premiums on early repayments, the ability to defer drawdowns, and the ability to seek repayment holidays. It was suggested that these flexibilities are particularly useful in responding to unforeseen delays and other circumstances in infrastructure projects.

3.197 Some authorities (14%) suggested they consider further factors, such as being able to borrow for shorter durations, general diversification so as to not be over reliant on a single lender, and whether the lender is compatible with the local authority’s ethical policies. In addition, a small number of authorities (3%) stated that they would seek to borrow from alternative lenders as a result of the new lending terms set out in this consultation.

3.198 2% of the authorities who said they actively consider or currently do borrow from alternative lenders in Q38 did not answer.

3.199 **Government response to Q37-38:** The government notes these responses.

**What are the main reasons that you borrow from other LAs and how do these reasons differ to borrowing from the PWLB? (Q39)**

3.200 The vast majority of local authority respondents (85%) said that the main reason for borrowing from other local authorities was to borrow for short terms of under than one year, either to manage cashflow or because the interest rates offered by other authorities are usually lower than those offered by other lenders.

3.201 In addition to short loan lengths and interest rates, around half of these local authorities said that they borrow from other authorities because the terms are more permissive than those offered by the PWLB, or for the same reasons they consider borrowing from other alternative lenders. Some of the respondents suggested that there has been a rise in short-term borrowing from other local authorities in the past year in anticipation of a change in PWLB interest rates.
3.202 The remaining local authorities (9%) answered that they do not borrow from other authorities. Additionally, a small number of local authorities said that they operate a policy that they will only borrow from neighbouring authorities or authorities within the same county.

3.203 6% of local authorities did not answer.

3.204 Government response: The government notes these responses.
Name of the PWLB (Q40)

Is there a case for changing the name of the PWLB? (Q40)

3.205 The majority of respondents (63%) said that either there was no need to change the name of the PWLB, or that they opposed changing its name. While recognising that the abolition of the Commissioners meant that there was no longer a ‘Board’, most respondents noted that the existing name was well established and widely recognised in the sector and that they could not identify any benefits to changing it.

3.206 A small proportion of respondents (15%) said that the name of the PWLB should change in response to the abolition of the Board of Commissioners. Mostly, these suggested that it should be renamed the Public Works Lending Facility in order to maintain consistency with the DMADF. Other alternative names were: Public Sector Loans Office, Public Services Loans Board, Public Works Borrowing & Lending Facility, Government Lending Facility, HMTLB, Community Infrastructure and Investment Fund, Infrastructure & Community Investment Fund, Community Investment & Loan Facility, Local Investment Fund, and Community and Local Infrastructure Fund.

3.207 22% had no opinion or gave no answer.

3.208 Government response: The government does not intend to change the name of the PWLB.
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