



United Kingdom
Debt Management
Office

Public Works Loan Board

Annual Report and Accounts 2015-2016

**Public Works Loan Board
Report and Accounts 2015 – 2016**

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

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Overview

Secretary's statement

Throughout 2015-2016, the PWLB continued to provide a cost effective lending service to local authorities, meeting their requirements in terms of the amount of financing and the timing and duration of their borrowing.

The PWLB advanced 621 new loans with a value of £3,021 million to local authorities in the year. The vast majority (£2,505 million) of these loans were maturity loans. However, the PWLB also continued to offer both annuity and equal instalments of principal loans, constituting £230 million and £286 million respectively of advances in 2015-2016, to provide a flexible range of lending alternatives to local authorities.

As well as advancing new loans, during the year, the PWLB managed and collected interest payments on more than fifteen thousand loans with a value of £65,316 million at 31 March 2016. In 2015-2016, the PWLB generated £2,931 million of interest income on its loans and collected over thirty thousand interest and loan repayments by borrowers.

The PWLB continued to offer both fixed and variable rate loans during the year, offering rates determined

by the UK Debt Management Office using a methodology specified by HM Treasury. The PWLB also continued to offer concessionary rates to those local authorities who qualified for the Certainty rate or Project rate as specified by HM Treasury.

Following a review of the role of the Public Works Loan Commissioners in 2014, HM Government continues to make preparations to consult on the proposed abolition of the PWLB and the transfer of its function to another entity. This followed a review of the current arrangements and the relevant provision was introduced in the Infrastructure Act 2015. The reform is directed at the governance arrangements for the function only and will not (and is not intended to) alter the existing lending or loan repayment arrangements for borrowers.

I would like to express my sincere appreciation to all PWLB Commissioners, PWLB staff, and colleagues at HM Treasury for their professionalism, commitment and support throughout the year. The successes of the PWLB would not have been possible without their valued contribution.

Jason Phillips

Secretary, Public Works Loan Board

5 July 2016

Purpose and principal activities of the Public Works Loan Board

This publication presents the annual Report and Accounts of the Public Works Loan Board for the year ended 31 March 2016. 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 2015-2016.

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 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.

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.

Secretary and Commissioners in post

The Secretary of the PWLB throughout 2015-2016 was Jason Phillips. The Commissioners holding office during the year were as shown below.

Original appointment began		Current appointment ends
2009	John Campbell (Chair) Former Director of Corporate Resources, Scottish Borders Council	2017
2010	Maureen Wellen (Deputy Chair) Former Assistant Director, Chartered Institute of Public Finance and Accountancy	2018
2009	Richard Gibson Former member, Senior Civil Service, Office of the Deputy Prime Minister	2017
2013	Amanze Ejiogu Lecturer, Robert Gordon University, Aberdeen	2017*
2013	David Roberts-Jones Retired Chief Executive Former Member and Honorary Treasurer, Royal Music Association Former Member and Trustee, British Society for Sexual Health and HIV	2017
2013	Mike Weaver Former Director of Financial Services, Worcestershire County Council Former President, Chartered Institute of Public Finance and Accountancy	2017
2015	Joanne Fintzen Former European General Council Citi Capital Advisors	2019
2015	Robin Paddock Former Chief Executive and Treasurer, Essex Police Authority Independent member, Essex University's Audit & Risk Management Committee	2019

* Amanze Ejiogu resigned as a Commissioner on 29 April 2016.

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.

During the prior year, a review of the role of the Public Works Loan Commissioners was conducted. This review resulted in the introduction of a provision in the Infrastructure Act 2015 to enable the government to abolish the PWLB using the Public Bodies Act 2011. On 12 May 2016 HM Treasury published a consultation on the proposed abolition of the PWLB and the transfer of its function to another entity. The reform is directed at the governance arrangements for the function only and will not (and is not intended to) alter the existing lending or loan repayment arrangements for borrowers.

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 billion to £70 billion. Section 300 of the Finance Act 2014 (which requires authorisation by HM Treasury to come into force), allows a further increase of the limit up to £95 billion (principal) on the total of loans outstanding to the PWLB at any one time.
- 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.
- Two types of loan are available from the PWLB:
- 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.

During the year, one new Circular was issued. Circular 158, issued on 1 March 2016, provided additional details regarding the PWLB's lending arrangements.

Future developments

Following a review of the role of the Public Works Loan Commissioners, the Infrastructure Act 2015 introduced the relevant provision to enable the government to abolish the PWLB using the Public Bodies Act 2011. On 12 May 2016 HM Treasury published a consultation on the proposed abolition of the PWLB and the transfer of its function to another entity. The reform is directed at the governance arrangements for the function only and will not (and is not intended to) alter the existing lending or loan repayment arrangements for borrowers.

Performance summary

The PWLB received interest income in the year of £2,931 million (2014-2015: £2,866 million). This comprised £2,842 million of contractual interest income (2014-2015: £2,858 million), and £89 million of premiums received due to the early redemption of loans (2014-2015: £8 million).

Year on year, the PWLB's interest income increased by £65 million. Contractual interest income decreased by £16 million and premiums received increased by £81 million.

The PWLB advanced 621 new loans to borrowers with a value of £3,021 million (2014-2015: 468 loans with a value of £2,587 million). £919 million of loans advanced during the year were undertaken by the PWLB as a one-off event to facilitate Welsh local authorities buying themselves out of the Housing Revenue Account subsidy system in Wales, in line with the requirements of the Housing (Wales) Act.

The PWLB's borrowers redeemed loans early with a principal value of £282 million in 2015-2016 (2014-2015: £46 million).

At 31 March 2016, the PWLB held loan assets of £65,316 million (31 March 2015: £64,424 million), inclusive of accrued income receivable of £498 million (31 March 2015: £496 million). The PWLB also held a cash balance of £40 million (31 March 2015: £113 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 2016, the average period to maturity of fixed rate loans had fallen to 22.8 years (31 March 2015: 22.9 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 4.36% (31 March 2015: 4.46%).

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.

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.

Key issues and risks

The key issues and risks facing the PWLB are considered in the governance statement on page 28 to 36.

Fees and charges

The PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget, as agreed with HM Treasury. In 2015-2016, the DMO received fees of £1 million from the PWLB's borrowers in respect of new loans issued (2014-2015: £1 million).



Figure 1: Summary of transactions and balances outstanding

	In the year 2015-2016			Balances outstanding as at 31 March 2016		
	Advances £m	Repayments of principal £m	Repayments of interest £m	Principal due but not yet paid £m	Principal not yet due** £m	Interest due but not yet paid £m
Loans on local revenue to:						
Local authorities in England						
County Councils	239	432	516	-	9,398	-
London Borough Councils	120	191	387	-	9,091	-
Metropolitan District Councils	490	420	498	-	10,640	-
Non-Metropolitan District Councils	623	341	617	-	17,236	-
Parish and Town Councils	18	8	6	-	147	-
Others	201	196	259	-	5,480	-
	1,691	1,588	2,283	-	51,992	-
Local authorities in Wales						
Principal Councils	1,044	61	182	-	3,746	-
Community Councils	-	-	-	-	4	-
Others	14	10	4	-	105	-
	1,058	71	186	-	3,855	-
Local authorities in Scotland						
Principal Councils	272	430	448	-	8,847	-
Others	-	42	13	-	123	-
	272	472	461	-	8,970	-
Total loans on local revenues	3,021	2,131	2,930	-	64,817	-

	In the year 2015-2016			Balances outstanding as at 31 March 2016			
	Advances £m	Repayments of principal £m	Repayments of interest £m	Principal due but not yet paid £m	Principal not yet due** £m	Interest due but not yet paid £m	
Loans on property to harbour authorities							
England	-	-	-	-	-	-	
Wales	-	-	-	-	-	-	
Scotland	-	-	-	-	1	-	
Total loans on property	-	-	-	-	1	-	
Total loans on local revenues and property	3,021	2,131	2,930	-	64,818	-	
Add Totals from 1817 to 31 March 2015*	238,610	174,684	128,117				
Principal remitted or extinguished To 31 March 2015	n/a	^(a) 58	n/a				
In the year 2015-2016	n/a	n/a	n/a				
Total at 31 March 2016	241,631	176,757	131,047				

* This shows the total advances, repayments of principal and repayments of interest since the PWLB was permanently established in 1817 till 31 March 2015.

** This excludes any early repayments of principal by borrowers.

(a) The principal remitted or extinguished up to 31 March 2015 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 2016 was £91,130 million.

Performance analysis

Applications for loans

The PWLB agreed 332 applications for loans (2014-2015: 351 applications). 188 authorities applied for advances (2014-2015: 182 authorities), including 88 non-principal authorities (2014-2015: 81 non-principal authorities). Of the 546 principal authorities, 100 applied to the PWLB during the year (2014-2015: 101 authorities) and 126 had no debt outstanding to the PWLB as at 31 March 2015 (31 March 2015: 126 authorities).

Review by type of loan and borrower

Figure 2 shows loan advances made by the PWLB in 2015-2016 by type of loan and type of borrower. The figure highlights the strong preference for fixed rate loans during the year, such that less than £1 million of variable rate loans were advanced and £3,021 million of fixed rate loans were advanced.

Figure 2: Amounts advanced by type of loan and borrower

	Fixed rate £m	Variable rate £m	Total £m
Local authorities in England			
County Councils	239	-	239
London Borough Councils	120	-	120
Metropolitan District Councils	490	-	490
Non-Metropolitan District Councils	623	-	623
Parish and Town Councils	18	-	18
Others	201	-	201
	1,691	-	1,691
Local authorities in Wales			
Principal Councils	1,044	-	1,044
Community Councils	-	-	-
Others	14	-	14
	1,058	-	1,058
Local authorities in Scotland			
Principal Councils	272	-	272
Others	-	-	-
	272	-	272
	3,021	-	3,021



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Types of loans, periods, rates and incidence of drawings

The monthly totals of loan advances by standard and concessionary rates, and the effect on the PWLB's loan portfolio, can be seen in Figure 3. £1,665 million of the PWLB's advances in 2015-2016 were made at the Certainty rate, £417 million at the Project rate and £20 million at the Standard rate. £919 million of loans were also advanced at specially determined rates set by HM Treasury to facilitate the Welsh local authorities buying themselves out of the Housing Revenue Account subsidy system in Wales, in line with the requirements of the Housing (Wales) Act. The principal balance outstanding to the PWLB at 31 March 2016 was £64,818 million (31 March 2015: £63,928 million).

The relationship between rates of interest and the term till maturity of advances for fixed rate loans can be seen in Figure 4. The figure highlights the preference by borrowers for long-term loans, with £888 million (29%) of advances being for longer than 40 years.

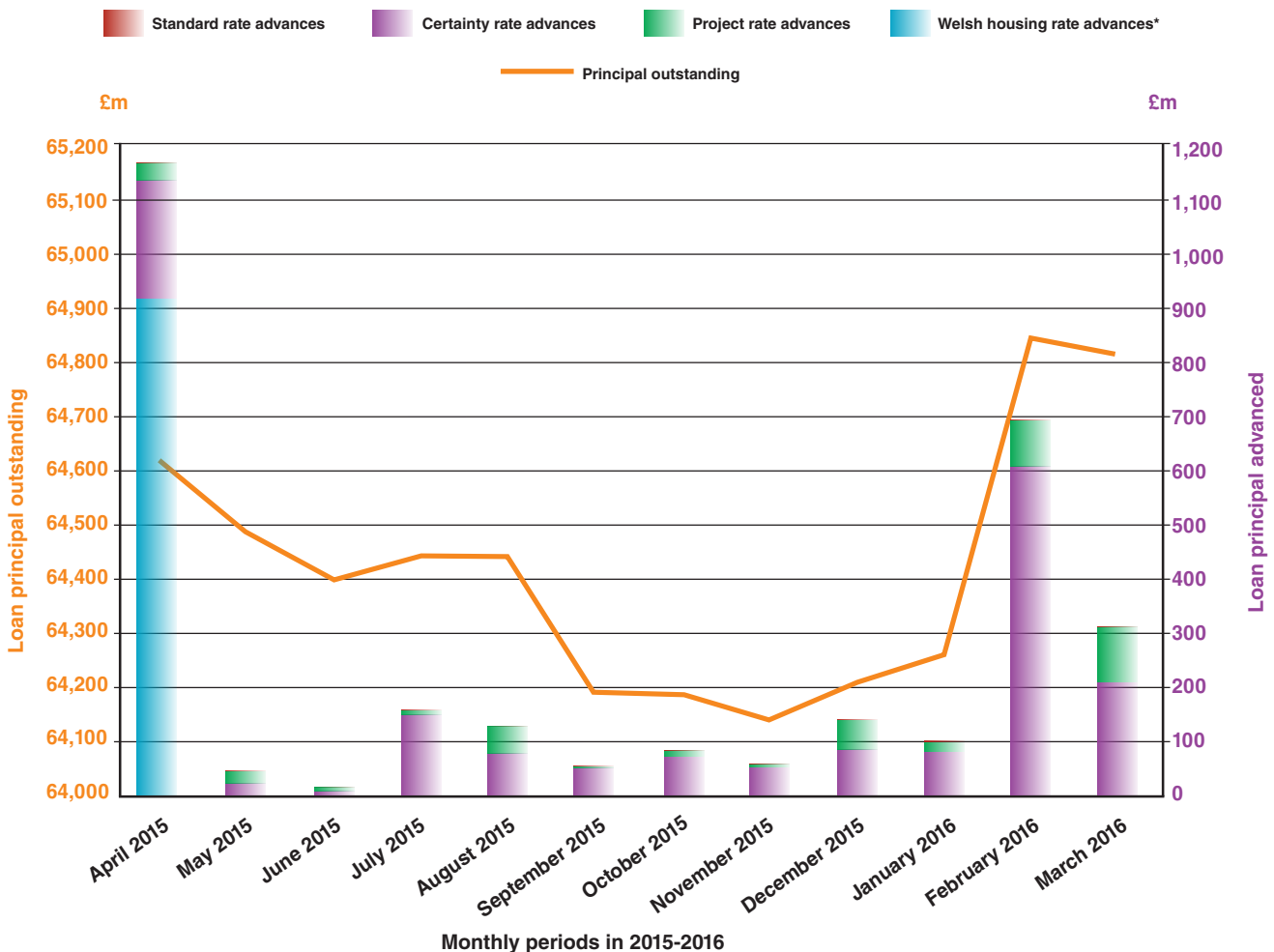
Fixed rate loans with a value of £263 million (2014-2015: £424 million), or 9% of all advances (2014-2015: 16%), were taken for the maximum period of 50 years. £3 million of fixed rate loans were taken for the minimum period of one year (2014-2015: £11 million).

The demand for fixed and variable rate loans over the previous 10 years, and their effect on the PWLB's loan portfolio, is demonstrated in Figure 5. In 2015-2016, the PWLB advanced £3,021 million of fixed rate loans and less than £1 million of variable rate loans. Over the previous 9 years, the PWLB had advanced £61,187 million of fixed rate loans and £1,185 million of variable rate loans (2% of the total).

Figure 6 shows the pattern of rates and the term till maturity of advances over the previous 10 years. The average term till maturity for advances was 28.1 years in 2015-2016.

Figure 7 demonstrates the continuing popularity of maturity loans, which constituted £2,505 million (83%) of advances in 2015-2016.

Figure 3: Principal outstanding and advanced, month by month



* These loans were advanced at specially determined rates set by HM Treasury to facilitate the Welsh local authorities buying themselves out of the Housing Revenue Account subsidy system in Wales, in line with the requirements of the Housing (Wales) Act

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

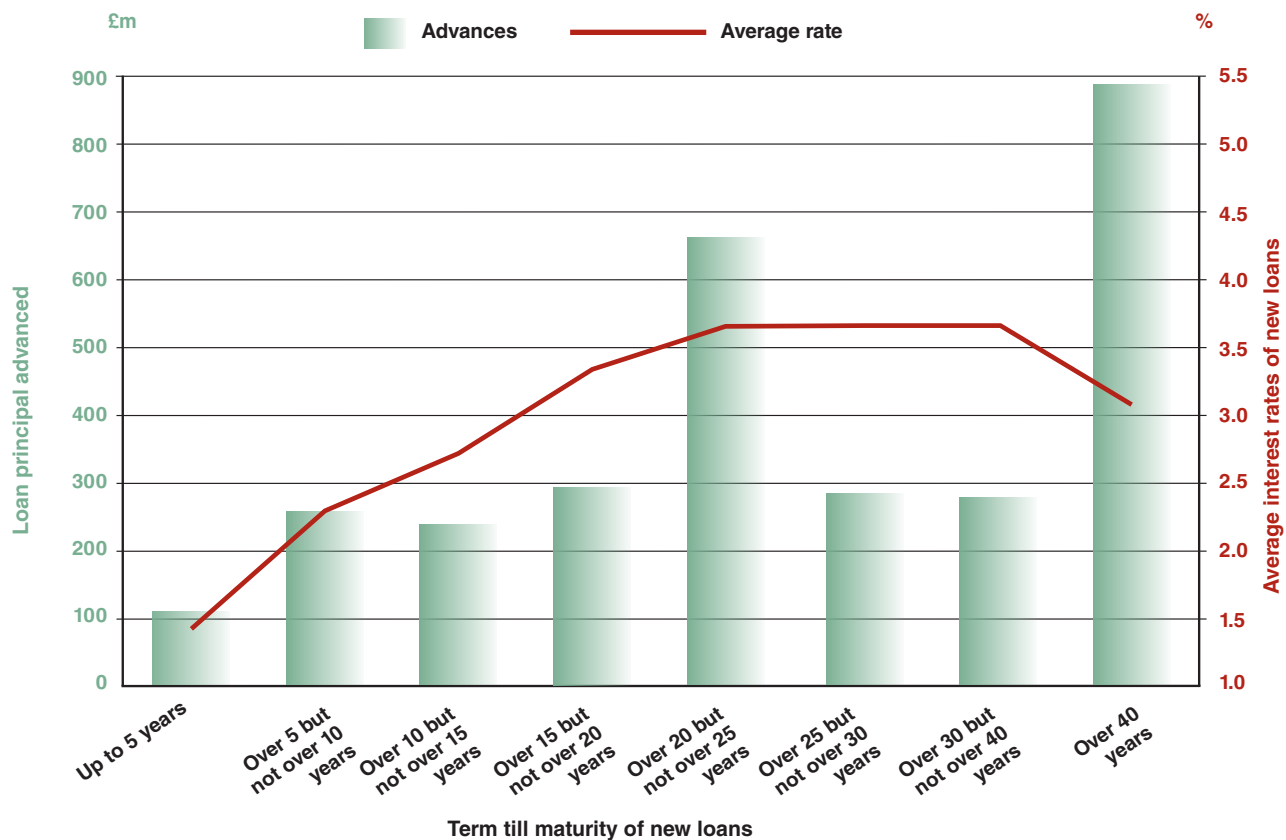


Figure 5: Principal outstanding and advanced, year by year



Figure 6: Average rate and term till maturity of advances, year by year

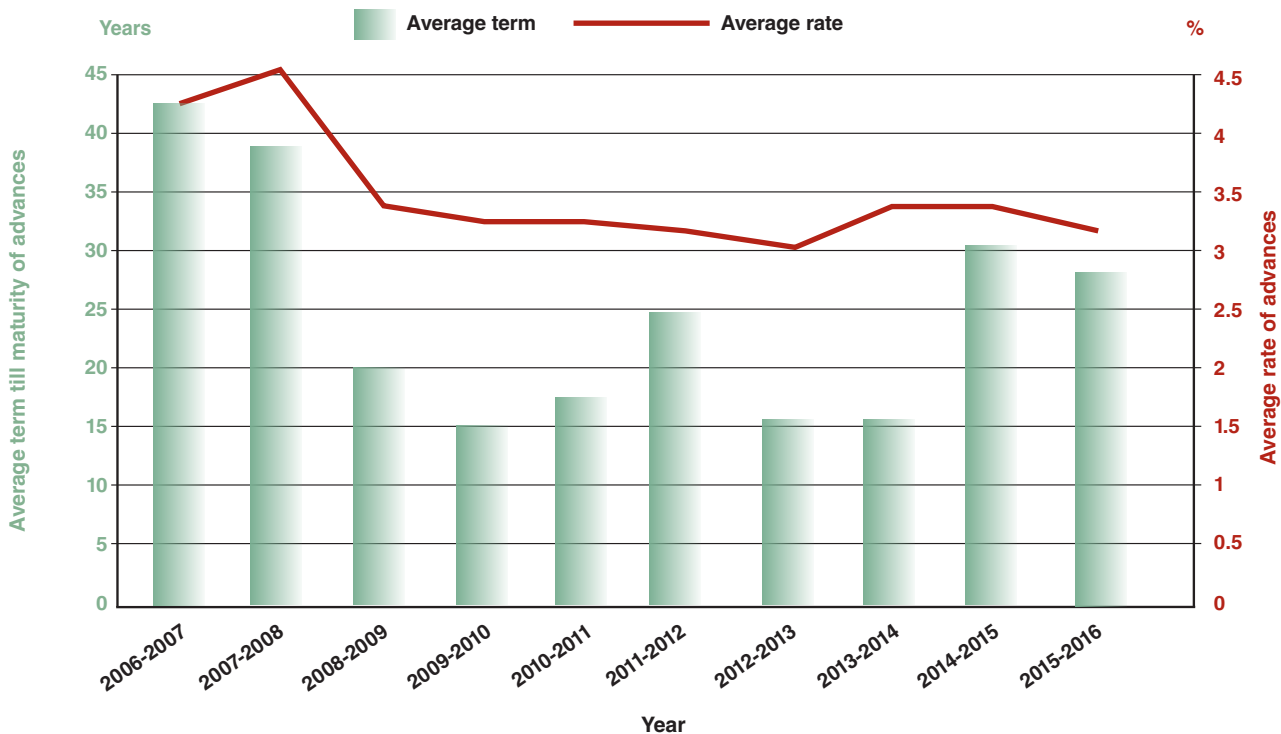


Figure 7: New loans by type and by term till maturity

Method of Repayment	Period of payment (£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	
Fixed rate loans								
Maturity	110	217	197	246	640	230	865	2,505
Annuity	2	6	7	12	131	49	23	230
Equal instalments of principal	1	39	31	38	176	1	-	286
	113	262	235	296	947	280	888	3,021
Variable rate loans								
Maturity	-	-	-	-	-	-	-	-
Equal instalments of principal	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
All loans								
Maturity	110	217	197	246	640	230	865	2,505
Annuity	2	6	7	12	131	49	23	230
Equal instalments of principal	1	39	31	38	176	1	-	286
	113	262	235	296	947	280	888	3,021

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 8 summarises early repayments in 2015-2016.

Figure 8: Early repayments

	Number of loans repaid	Principal repaid	Premium received	Discount paid	Net premiums/ discounts
		£m	£m	£m	£m
Fixed rate loans	109	262	89	-	89
Variable rate loans	1	20	-	-	-
	110	282	89	-	89

Early repayments of £282 million were made during the year (2014-2015: £46 million), compared to new advances of £3,021 million (2014-2015: £2,587 million).

The value of loan principal outstanding to borrowers rose by 1.4% year-on-year (2014-2015: 1.1% rise), to £64,818 million from £63,928 million at 31 March 2015.

Repayments in arrears

There were less than £1 million overdue loan repayments at 31 March 2016 (31 March 2015: less than £1 million). Overdue loan repayments at 31 March 2016 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.

The PWLB's fixed lending rate for four different maturities and its 3 month variable lending rate for 2015-2016 are shown in Figure 9.

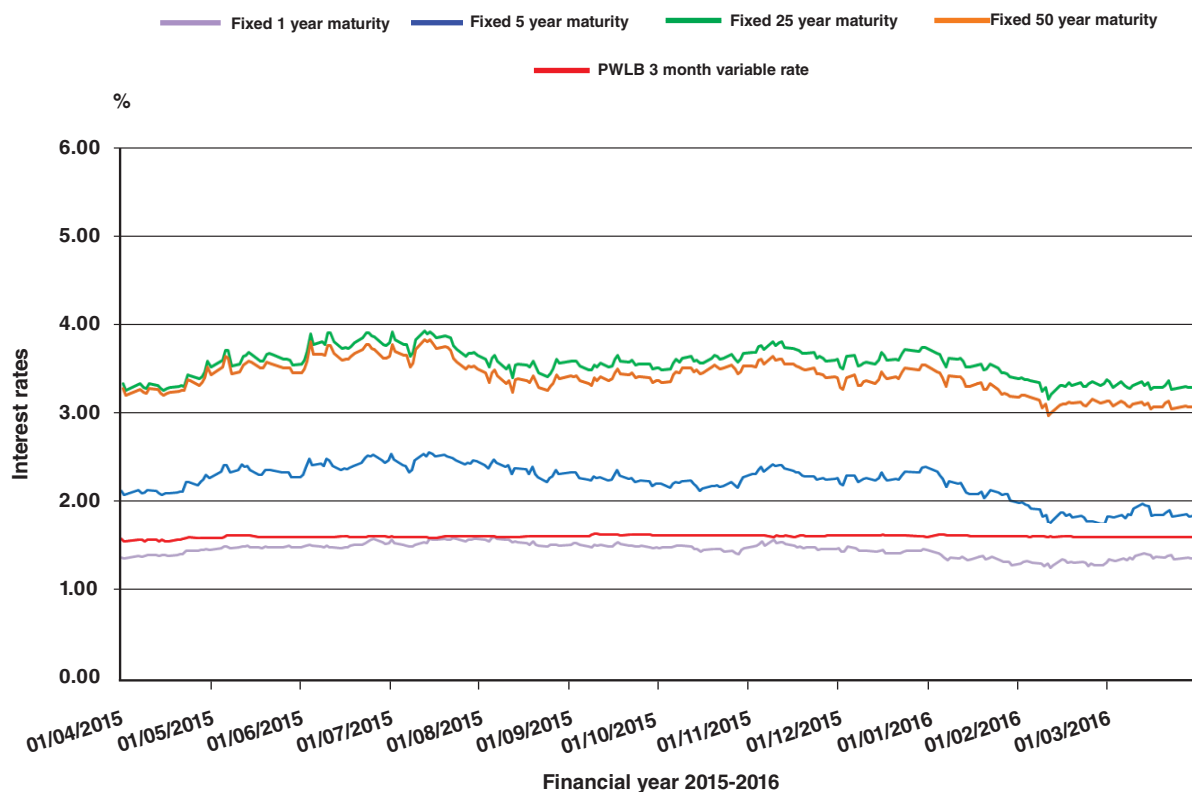
Concessionary rates

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 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 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 9: Interest rates by term till maturity and type of loan*



* The interest rates shown relate to standard rate loans. Certainty and Project rates are 0.2% and 0.4% respectively lower than the standard rate.

Transfers of debt

The PWLB is prepared to transfer debt as appropriate, following local government reorganisation. This means that the PWLB would, for instance, be prepared to transfer debt from a collection of District Councils to a Unitary Authority on consolidation.

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.

Jason Phillips

Secretary, Public Works Loan Board
5 July 2016

Accountability report

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Corporate governance report

Directors' report

Operationally, the PWLB is part of the DMO and its staff are employees of the DMO. The PWLB therefore has no staff of its own, but has an unpaid Chairman and Commissioners as referenced on page 8.

Directors' conflicts of interest

In 2015-2016, no material conflicts of interest were declared by the Commissioners or by DMO Managing Board members.

Reporting of personal data related incidents

The PWLB had no protected personal data related incidents during 2015-2016.

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 PWLB's assets.

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.



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 overview to this Report and Accounts.

As Secretary to the PWLB 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.

The 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 2015-2016 by the DMO Managing Board (the Board) which, in addition to the DMO Accounting Officer, is comprised of:

- Jo Whelan
Deputy Chief Executive and Co-Head of Policy and Markets;
- Jim Juffs
Chief Operating Officer;
- Jessica Pulay (from 30 July 2015)
Co-Head of Policy and Markets;
- James Richardson (to 18 March 2016)
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 June 2015 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. The Terms of Reference underwent a full review by the Board in 2012.

2015-2016 Managing Board activities

Board meetings were held regularly throughout 2015-2016. In addition to regular agenda items, including risk management, staffing and progress against the operational business plan, the Board paid particular attention to the proposed governance structure that is expected to be implemented in 2016 to replace the PWLB whilst continuing existing lending or loan repayment arrangements.

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

	Possible	Actual		
Sir Robert Steeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	5*	5	Audit Committee	
James Richardson	8	7	Possible	Actual
Brian Larkman	8	8	4	4
Brain Duffin	8	8	4	4
Caroline Mawhood	n/a	n/a	4	4

* Joined from 30 July 2015

Audit Committee

The Secretary was supported during 2015-2016 by the Audit Committee on matters relating to risk, internal control and governance. The Audit Committee covers the activities of the DMO, Debt Management Account (DMA), Commissioners for the Reduction of the National Debt (CRND) and PWLB. The members of the Audit Committee during 2015-2016 were:

- Brian Larkman (Chaired to 30 June 2015);
- Brian Duffin (Chaired from 1 July 2015);
- 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 and the Corporation of London and one of two external members of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breast Cancer Now 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 Co-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 advice to the Secretary of the PWLB on:

- The overall processes for risk, control and governance and the governance statement;
- Management assurances and appropriate actions to follow from internal and external audit findings, risk analysis and reporting undertaken;
- The financial control framework and supporting compliance culture;
- Accounting policies and material judgements, the accounts and the annual report and management's letter of representation to the external auditors;
- Whistle-blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business;
- Processes to protect against money laundering,

fraud and corruption; and

- The planned activity and results of both internal and external audit.

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

- Business continuity planning;
- Security policy framework, including information systems security and controls;
- Risk management and financial control;
- Implementation of audit recommendations;
- Internal management reporting;
- Effectiveness of whistleblowing arrangements;
- Implementation of financing remit;
- IT configuration management; and
- Payroll Controls.

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 2015-2016.

■ 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.

The 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.

The fixed interest rates offered by the PWLB are determined by HM Treasury in accordance with section 5 of the National Loans Act 1968. In practice the rates are calculated each day using data from one of the DMO's business critical models. The DMO has

put in place a robust quality assurance framework for all the models that it uses which extends to cover validation of results and any changes in approach.

■ 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. CMRC met fourteen times during 2015-2016.

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 transaction processing risks and controls, IT and data security, security classifications for email communications, policy for escalation of concerns and business

continuity planning. The ORC met eight times during 2015-2016.

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 further automation of PWLB reporting, the DMO's resilience of the IT infrastructure and changes to the banking arrangements.

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 2015-2016, this included the DMO's Whistleblowing and Escalation 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>IT systems and infrastructure</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>During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements. The DMO has strengthened the resilience of systems further to the strategic review conducted in 2014-2015. The DMO has 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. Assessment of business continuity requirements is a specific requirement for new</p>

Principal risks and uncertainties	Mitigation and management
<p>Transaction processing</p>	<p>projects and major business initiatives, including those related to or affecting the PWLB.</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>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. All teams, including the 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 the PWLB's activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation 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 the PWLB. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board. During the year further improvements have been made in the operational control framework including the automation of a number of reports which has seen a reduction in the overall number of operational incidents involving the PWLB.</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 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>	

Principal risks and uncertainties	Mitigation and management
<p>People risk</p> <p>The DMO, including the 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>The DMO's Training and Development policy is designed to help ensure that 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. During the year, particular consideration has been given to the issues faced by staff working increased hours and weekends on the programme to strengthen IT infrastructure. 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 action if required, will be considered by the DMO Accounting Officer and Board.</p> <p>The DMO was reaccredited as an Investor in People in 2014.</p>

Principal risks and uncertainties	Mitigation and management
<p>IT and data security</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>The DMO, including the 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 security risk. Cyber security has continued to be a specific area of focus in 2015-2016 and the DMO's IT team have worked to strengthen controls against both external and internal threats to IT systems and infrastructure. In addition, the DMO completed a number of upgrade projects in 2015 which have helped improve the resilience of the DMO's IT security environment, including an upgrade of information technology patching and network components.</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. This year particular attention has been paid to the auction process and systems used to ensure the control environment remains robust. Further support and guidance from Communications Electronics Security Group (CESG) has been received and acted upon over the course of the year to ensure that the DMO meets their requirements, which are a condition for continuing connection to the Public Service Network (PSN). In response to this the DMO has updated its security strategy and continues to progress improvements to the control environment.</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 2015-2016. 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 2015-2016, no ministerial directions were given and no material conflicts of interest have been

declared 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.

Jason Phillips

Secretary, Public Works Loan Board

5 July 2016

Parliamentary accountability and audit report

Regularity of expenditure

The expenditure and income of the PWLB were applied to the purposes intended by Parliament.

The borrowings and investments of the PWLB were applied to the purposes intended by Parliament.

Both the above statements have been audited.

Fees and charges

During the year, the PWLB received fees and charges from borrowers in respect of new loans issued. These fees and charges were accounted for within the DMO's overall budget and therefore formed part of the DMO's accounts, as described on page 12. The PWLB itself recognised no fees or charges.

The above statement has been audited.

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 2016 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. I have also audited the information in the Parliamentary Accountability Disclosures that is described in that report as having been audited.

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 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 Performance Report and Accountability Report 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 2016 and of its results 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 parts of the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance the National Loans Act 1968 and HM Treasury directions issued thereunder; and
- the information given in Performance Report and Accountability Report 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 and the parts of the Parliamentary Accountability disclosures to be audited 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.

Sir Amyas C E Morse

Comptroller and Auditor General
5 July 2016

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

Accounts of the
Public Works Loan Board

United Kingdom
Debt Management
Office



United Kingdom
Debt Management
Office

Statement of comprehensive income

For the year ended 31 March 2016

	Note	2016 £m	2015 £m
Interest income	2, 3	2,931	2,866
Operating income		2,931	2,866
Interest payable to National Loans Fund		(2,931)	(2,866)
Operating surplus retained		-	-

The notes on pages 44 to 52 form part of these accounts.

Statement of financial position

As at 31 March 2016

	Note	2016 £m	2015 £m
Assets			
Cash and balances at bank		40	113
Loans and advances	4	65,316	64,424
Total assets		65,356	64,537
Liabilities			
Amounts owed to National Loans Fund	7	65,356	64,537
Total liabilities		65,356	64,537

The notes on pages 44 to 52 form part of these accounts.

Jason Phillips

Secretary, Public Works Loan Board

5 July 2016

Statement of cash flows

For the year ended 31 March 2016

	Note	2016 £m	2015 £m
Net cash from operating activities	8	2,040	2,185
Financing activities			
Interest paid to National Loans Fund		(2,923)	(2,936)
Increase in loan principal outstanding to National Loans Fund		810	735
Net cash used in financing activities		(2,113)	(2,201)
Decrease in cash		(73)	(16)

The notes on pages 44 to 52 form part of these accounts.

Notes to the accounts for the year ended 31 March 2016

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. The accounts have been prepared on a going concern basis in line with the requirements of the FReM, as despite HM Government consulting on the proposed abolition of the PWLB, if the PWLB were to cease to exist, its services would continue to be provided by another entity of HM Government.

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 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- 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 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 1)'. Application is required for reporting periods beginning on

or after 1 January 2016. The PWLB expects to apply these revisions to IAS 1 in 2016-2017. The application of these revisions, which ensure that entities are able to use their judgement when presenting their financial reports within the requirements of IAS 1, is not expected to materially alter the presentation of the financial statements of the PWLB.

- IAS 7 Statement of Cash Flows, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 7)'. Application is required for reporting periods beginning on or after 1 January 2017. The PWLB expects to apply these revisions to IAS 7 in 2017-2018. The application of these revisions, which ensure that users can evaluate changes in financing, may result in additional disclosures regarding changes in liabilities arising from financing activities of the PWLB.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018. The PWLB expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and derecognition of financial instruments, is not expected to alter 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, 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 2016.

(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

	2016 £m	2015 £m
Contractual interest income for fixed rate loans	2,837	2,853
Contractual interest income for variable rate loans	5	5
Premiums received	89	8
	2,931	2,866

3 Interest income by country

	2016 England £m	2016 Wales £m	2016 Scotland £m	2016 Total £m
Fixed rate loans	2,275	196	455	2,926
Variable rate loans	5	-	-	5
	2,280	196	455	2,931

	2015 England £m	2015 Wales £m	2015 Scotland £m	2015 Total £m
Fixed rate loans	2,243	153	465	2,861
Variable rate loans	4	-	1	5
	2,247	153	466	2,866

4 Loans and advances

	2016 £m	2015 £m
Fixed rate loan principal	64,143	63,211
Variable rate loan principal	675	717
Loan principal outstanding	64,818	63,928
Accrued income on fixed rate loans	497	495
Accrued income on variable rate loans	1	1
Accrued income	498	496
Value of loans outstanding	65,316	64,424

5 Loan Principal

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

	2016 Loan Principal	2016 Carrying Value	2016 Fair Value	2016 Weighted average interest rate*
	£m	£m	£m	%
Fixed rate loans	64,143	64,640	90,455	4.40
Variable rate loans	675	676	675	0.72
	64,818	65,316	91,130	4.36

	2015 Loan Principal	2015 Carrying Value	2015 Fair Value	2015 Weighted average interest rate*
	£m	£m	£m	%
Fixed rate loans	63,211	63,707	88,478	4.50
Variable rate loans	717	717	717	0.68
	63,928	64,424	89,195	4.46

* 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 2016.

The weighted average period to maturity of fixed rate loans at 31 March 2016 was 22.8 years (31 March 2015: 22.9 years).

At 31 March 2016, £14 million of loans (31 March 2015: £1,086 million) had been confirmed, but not yet advanced. This decrease from the prior year was primarily due to £919 million of loans to Welsh local authorities, which were agreed on 31 March 2015, but were not advanced until 2 April 2015. These transactions were undertaken by the PWLB as a one-off event to facilitate Welsh local authorities buying themselves out of the Housing Revenue Account subsidy system in Wales, in line with the requirements of the Housing (Wales) Act. Loans are not recognised in the PWLB's statement of financial position until the cash has been advanced to the borrower.

At 31 March 2016, there were no loans which borrowers had confirmed their intention to repay early (31 March 2015: none). Such repayments are not reflected in the statement of financial position until the cash has been repaid by the borrower.

5b Loan principal outstanding – analysis by period till maturity and period of interest rate fix

	2016 Principal outstanding by period till maturity £m	2016 Principal outstanding by period of interest rate fix* £m	2015 Principal outstanding by period till maturity £m	2015 Principal outstanding by period of interest rate fix* £m
Up to 1 month / repayable on demand	125	263	233	394
More than 1 month but not more than 3 months	302	434	295	427
More than 3 months but not more than 1 year	1,283	1,669	1,186	1,588
More than 1 year but not more than 5 years	7,054	6,625	6,881	6,651
More than 5 years but not more than 10 years	9,148	8,921	9,052	8,587
More than 10 years but not more than 20 years	15,237	15,237	15,129	15,129
More than 20 years but not more than 30 years	8,857	8,857	8,835	8,835
More than 30 years but not more than 40 years	12,965	12,965	11,461	11,461
More than 40 years	9,847	9,847	10,856	10,856
	64,818	64,818	63,928	63,928

* This indicates the period for which interest rates are fixed for all PWLB loans outstanding. This is the next re-pricing date for variable rate loans and the maturity date for fixed rate loans. Variable rate loans are only available to borrowers up to a maximum period till maturity of 10 years. All loans with a period till maturity of greater than 10 years are therefore fixed rate loans with equal periods till maturity and periods of interest rate fix.

5c Loan principal outstanding - analysis by country

	2016 Principal outstanding £m	2015 Principal outstanding £m
England	51,992	51,889
Wales	3,855	2,869
Scotland	8,971	9,170
	64,818	63,928

6 New issue, maturity and early redemption of loan principal

	2016 £m	2015 £m
New loans	3,021	2,587
Loans maturing	(1,849)	(1,850)
Loans redeemed early	(282)	(46)
Net increase in loan principal	890	691

7 Amounts owed to National Loans Fund

	2016 £m	2015 £m
Loan principal outstanding to borrowers	64,818	63,928
Accrued income on loans to borrowers	498	496
	65,316	64,424
Loan repayments not yet surrendered to National Loans Fund	40	113
	65,356	64,537

8 Reconciliation of operating income to net cash from operating activities

	Note	2016 £m	2015 £m
Operating income		2,931	2,866
Increase in loan principal outstanding to customers	6	(890)	(691)
(Increase)/decrease in accrued income		(1)	10
Net cash from operating activities		2,040	2,185

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
2016					
Cash and balances at bank	40	-	-	-	40
Loans outstanding to borrowers	-	65,062	253	1	65,316
Total	40	65,062	253	1	65,356
Loans confirmed but not advanced	-	14	-	-	14
2015					
Cash and balances at bank	113	-	-	-	113
Loans outstanding to borrowers	-	64,141	282	1	64,424
Total	113	64,141	282	1	64,537
Loans confirmed but not advanced	-	1,086	-	-	1,086

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.

The value of loans confirmed but not yet advanced has decreased as at 31 March 2016 primarily because of £919 million of loans to Welsh local authorities, which were agreed on 31 March 2015, but were not advanced until 2 April 2015. These transactions are more fully described on page 47.

There were less than £1 million overdue loan repayments at 31 March 2016 (31 March 2015: less than £1 million). Overdue loan repayments at 31 March 2016 have since been paid.

There were no renegotiated loans or assets considered impaired at 31 March 2016 (31 March 2015: 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 8, 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 2016 (31 March 2015: 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 interest payments on loans are received and loans are redeemed.

The total amount owed by the PWLB to the National Loans fund at 31 March 2016 was £65,356 million.

The Secretary and other key management personnel

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

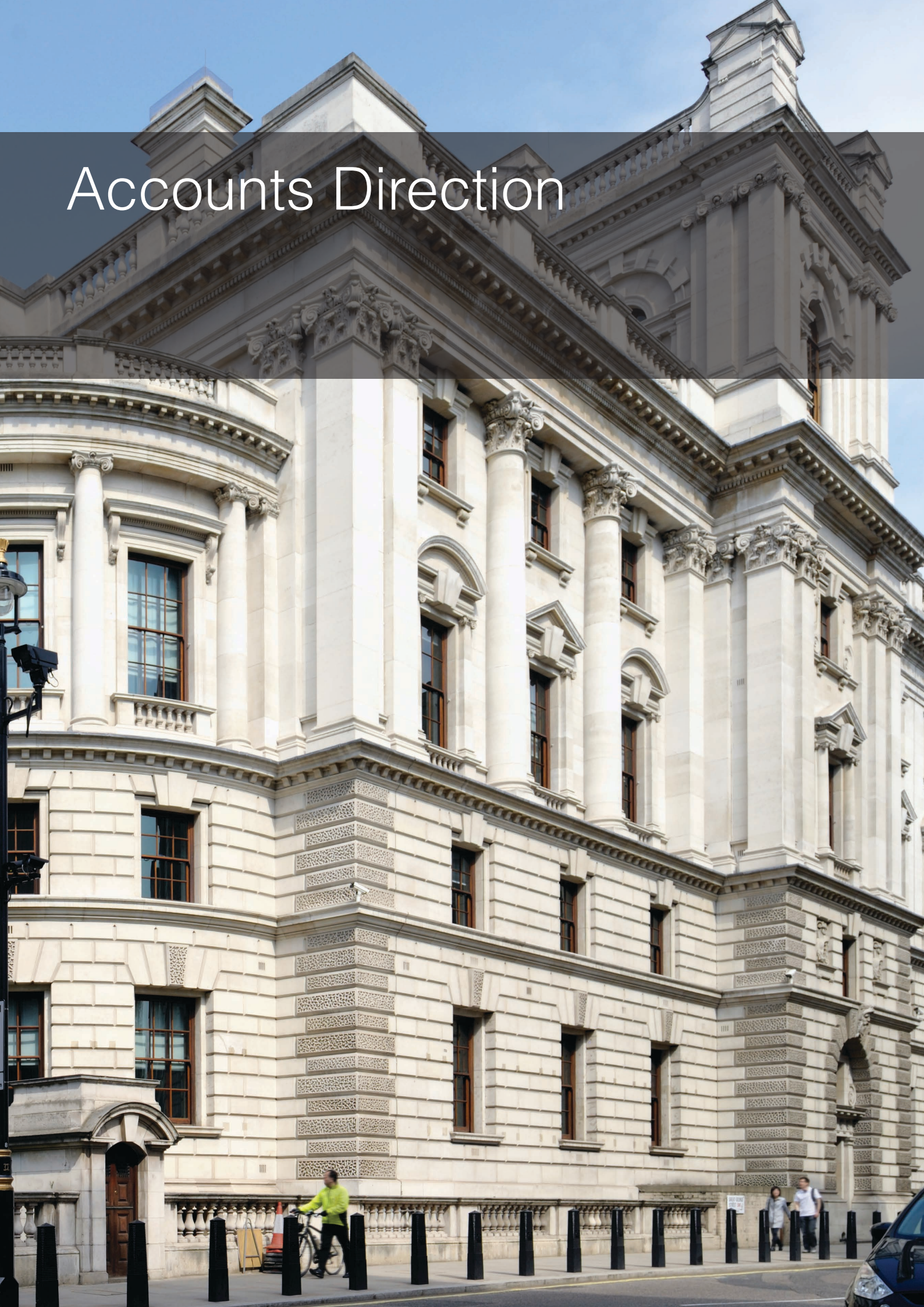
The Secretary of the PWLB has authorised these accounts for issue on 5 July 2016.

*the buildings.
 Certificate, in 1821
 under Poor Law*

100,000		
200,000		
3,000		
100,000		
7,000		
193,340		
501,500		
14,000		
2,179,377	"	"
18,260	"	"
8,410,577	"	"
215,241	7	1
£ 8,574,108	7	1

Britain

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.

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 0207 357 6501.

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