



United Kingdom  
Debt Management  
Office

**Public Works Loan Board**  
**Annual Report and Accounts 2017-2018**



**Public Works Loan Board  
Report and Accounts 2017 – 2018**

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

Ordered by the House of Commons  
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# Performance report

The purpose of the overview is to provide sufficient information to understand the Public Works Loan Board (PWLB), its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

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## Overview

### Secretary's statement

Throughout 2017-2018, 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 780 new loans with a value of £5,162 million to local authorities in the year. The majority (£4,008 million) of these loans were maturity loans. However, the PWLB also continued to offer both annuity and equal instalments of principal loans, constituting £846 million and £308 million respectively of advances in 2017-2018, to provide a flexible range of lending alternatives to local authorities.

As well as advancing new loans, during the year, the PWLB collected interest payments on more than fifteen thousand loans, which had a carrying value of £70,833 million at 31 March 2018. In 2017-2018, the PWLB generated £2,848 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, at rates calculated by the UK Debt Management Office (DMO) using the

methodology specified by HM Treasury. The PWLB also continued to offer loans at concessionary rates to eligible local authorities as specified by HM Treasury.

Following a review of the role of the Public Works Loan Commissioners in 2014, a provision was introduced in the Infrastructure Act 2015 to abolish the PWLB and transfer its function to another entity. HM Government consulted on this proposed abolition and transfer of the PWLB's function in May 2016. The results of this consultation were published in November 2016, concluding that the PWLB should be abolished and its powers transferred to HM Treasury. The government is exploring the ways it can deliver the reform given the current constraints within the legislative process. The reform is directed only at the governance arrangements for the function 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, DMO 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

22 June 2018

## 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 2018. 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 2017-2018.

### 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. Nowadays these posts are held in order that the function of central government lending to local government complies with statute. In practice, the PWLB function has been administered by the DMO since July 2002 and it operates under a policy framework set by HM Treasury.

Monies for PWLB lending are provided for by Act of Parliament and drawn from the National Loans Fund. The National Loans Fund is HM Government's main

borrowing and lending account and is administered by HM Treasury.

### The function of the Commissioners

The Commissioners have delegated to the Secretary day-to-day administrative and reporting activities connected with advancing 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.

Borrowers are local authorities (plus a small number of other eligible public bodies) requiring loans for capital purposes. While the PWLB is legally required before making a loan to satisfy itself that there is sufficient security for its repayment, loans to local authorities are automatically secured by statute on the revenues of the authority, which removes the need for reference to specific revenues, assets or collateral.

The PWLB's activities do not give rise to credit risk for the PWLB itself, but form part of the credit risk profile of the National Loans Fund. The management of credit risk is described in note 9 to the accounts.

## Secretary and Commissioners in post

The Secretary of the PWLB throughout 2017-2018 was Jason Phillips. The Commissioners holding office during the year were as shown below.

Original appointment began		Current appointment ends
2009	<p><b>John Campbell (Chair)</b> Former Director of Corporate Resources, Scottish Borders Council</p>	2019
2010	<p><b>Maureen Wellen (Deputy Chair)</b> Former Assistant Director, Chartered Institute of Public Finance and Accountancy</p>	2019
2009	<p><b>Richard Gibson</b> Former member, Senior Civil Service, Office of the Deputy Prime Minister</p>	2019
2013	<p><b>David Roberts-Jones</b> Consultant Former Member and Honorary Treasurer, Royal Music Association</p>	2019
2013	<p><b>Mike Weaver</b> Former Director of Financial Services, Worcestershire County Council Former President, Chartered Institute of Public Finance and Accountancy</p>	2019
2015	<p><b>Joanne Fintzen</b> Former European General Counsel Citi Capital Advisors</p>	2019
2015	<p><b>Robin Paddock</b> Former Chief Executive and Treasurer, Essex Police Authority Independent member, Essex University's Audit &amp; Risk Management Committee</p>	2019



## Governance and membership of the Public Works Loan Board

Current statute requires the Crown to appoint up to 12 Commissioners (one of whom acts as Chair and another as Deputy Chair) and this process is done under normal public appointment procedures (e.g. advert on Cabinet Office website). By law, Commissioners may not be remunerated for their services. The Commissioners meet once a year to review the PWLB report and accounts that are prepared by the DMO. They have no role in the operational processes or the day-to-day management of the PWLB function and do not see loan applications.

Operationally, the PWLB function is administered as part of the DMO, an executive agency of HM Treasury, and staff working on PWLB activities are employees of the DMO. The operations of the PWLB are subject to the same control framework as the DMO's operations as a whole. Since the Secretary relies on the effectiveness of the DMO's internal control framework, formally he looks to its Chief Executive, as the DMO Accounting Officer, to manage the DMO to the required standards.

The PWLB lends to town and parish councils (in England) and town and community councils (in Wales). Applicants will need a borrowing approval from the Ministry of Housing, Communities and Local Government<sup>1</sup> (MHCLG), for which they should approach their County Association of Local Councils or, in the case of Welsh councils, the Welsh Government. The PWLB also lends to drainage boards. Applicants for loans will need a loan consent from the Department for Environment, Food and Rural Affairs (Defra). The approvals must be in place before loan applications can be made to the DMO, acting as the PWLB.

The PWLB also lends to major local authorities. Since 2004, major local authorities have been able to borrow (mainly for capital projects) without government consent, provided they can afford the borrowing costs. To this end, local authorities in England are required to have regard to four statutory codes when making these decisions. These are the Prudential Code and the Treasury Management Code, both of which are published by the Chartered Institute of Public Finance and Accountancy (CIPFA), as well as the statutory guidance documents on

investments and minimum revenues provision, which are published by MHCLG. Local authorities in England must have regard to these codes regardless of whether they borrow from the Public Works Loan Board or any other lender. The PWLB requires assurance from the authority that it is borrowing within relevant legislation and its borrowing powers.

The PWLB does not require information on the purpose of a loan. Responsibility for local authority spending and borrowing decisions lies with the locally-elected members of the council, who are democratically accountable to their electorates.

The PWLB operates within a policy framework set by HM Treasury. However in order to ensure the formal governance framework reflects this, the government recently consulted on changes to the PWLB's governance arrangements and subsequently announced that the PWLB as a statutory body (including the statutory role of Commissioners) will be abolished and its functions will be transferred to HM Treasury. The government is exploring the ways it can deliver the reform given the current constraints within the legislative process.

## 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 government 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

<sup>1</sup> Formerly the Department for Communities and Local Government (DCLG)

commitments entered into by the Public Works Loan Commissioners. Section 300 of the Finance Act 2014 came into force on 1 December 2017 and replaced the limits of £55 billion and £70 billion in Section 4(1) of the 1968 Act with new limits of £85 billion and £95 billion respectively. It also revoked the Local Loans (Increase of Limit) Order 2008.

The PWLB has no resources of its own, rather it borrows from the National Loans Fund as and when it requires to fund its loans. Likewise, all loan repayments to the PWLB are paid over to the National Loans Fund. All interest and premiums on early redemption paid to the PWLB are paid to the National Loans Fund and any discounts payable on early redemptions are funded from the National Loans Fund. Operationally, flows of funds are netted whenever practicable.

In accordance with Sections 3(2) and 5 of the 1968 Act, interest on loans made by the PWLB is payable at rates determined by HM Treasury. This is achieved operationally by having rates calculated by the DMO using the methodology specified by HM Treasury. There are regular, twice-daily redeterminations of rates, published at 9.30 a.m. and 12.30 p.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 PWLB currently operates within a policy framework set by HM Treasury. The PWLB is able 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 PWLB requires an oral statement of confirmation from the borrowing

authority, as part of the loan application process, that it is complying with the PWLB's Circulars and that the application is within the relevant legislation and the authority's borrowing powers.

Borrowers can request to repay loans before their due date. Under the policy framework, the PWLB accepts 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 Local Authority Lending pages of the DMO's website at [www.dmo.gov.uk](http://www.dmo.gov.uk).

### 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. HM Treasury published a government response in November 2016, which confirmed that a large majority of responses agreed with its proposal to abolish the PWLB and transfer its powers to HM Treasury. The government is exploring the ways it can deliver the reform given the current constraints within the legislative process.

In 2016, the government consulted on lending local authorities up to £1 billion at discounted rates to support certain qualifying infrastructure projects. Under the government's proposal, local authorities would be able to borrow up to £1 billion from the PWLB at a new Local Infrastructure Rate, which would be 0.4% below the PWLB's standard rate. HM Treasury issued a response to the consultation on 1 December 2017, which confirmed the consensus that the Local Infrastructure Rate would have a positive impact on infrastructure investment by local authorities. The government therefore plans to make available £1 billion of lending at this rate to English authorities, subject to two bidding rounds. Corresponding shares will be made available to local authorities in Scotland and Wales.

## Performance summary

The PWLB received interest income in the year of £2,848 million (2016-2017: £2,837 million). This comprised £2,828 million of contractual interest income (2016-2017: £2,832 million), and £20 million of premiums received due to the early redemption of loans (2016-2017: £5 million).

Year on year, the PWLB's interest income increased by £11 million. Contractual interest income decreased by £4 million and premiums received increased by £15 million.

The PWLB advanced 780 new loans to borrowers with a value of £5,162 million (2016-2017: 622 loans with a value of £3,634 million).

The PWLB's borrowers redeemed loans early with a principal value of £32 million in 2017-2018 (2016-2017: £55 million).

At 31 March 2018, the PWLB held loan assets of £70,833 million (31 March 2017: £67,086 million), inclusive of accrued income receivable of £731 million (31 March 2017: £494 million). The PWLB also held a cash balance of £43 million (31 March 2017: £40 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 2018, the average period to maturity of fixed rate loans had increased to 23.4 years (31 March 2017: 23.0 years). Also, there had been a reduction in the weighted average interest rate of the PWLB's loans outstanding at the balance sheet date to 4.08% (31 March 2017: 4.24%).

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 2017-2018, the DMO received fees of £1.8 million from the PWLB's borrowers in respect of new loans issued (2016-2017: £1.3 million).





Cherry	66 7/8	
H. J. J. J.		
Wm Galley	66 3/4	667.10
W. Golding	66 3/4	2002.10
J. Bartlett	66 3/4	867.15
J. Ellis	66 7/8	2006.5
Ditto	66 7/8	1337.1
M. Lucas	67 5/8	2028.1
Cherry	67 5/8	642.0
Com		

Figure 1: Summary of transactions and balances outstanding

	In the year 2017-2018			Balances outstanding as at 31 March 2018		
	Advances £m	Repayments of principal £m	Repayments of interest £m	Principal due but not yet paid £m	Principal outstanding £m	Interest due but not yet paid £m
<b>Loans on local revenue to:</b>						
<b>Local authorities in England</b>						
County Councils	390	286	388	-	9,579	-
London Borough Councils	786	122	366	-	9,974	-
Metropolitan District Councils	957	363	452	-	11,420	-
Non-Metropolitan District Councils	2,206	341	621	-	20,124	-
Parish and Town Councils	17	10	6	-	163	-
Others	282	92	176	-	5,595	-
	<b>4,638</b>	<b>1,214</b>	<b>2,009</b>	<b>-</b>	<b>56,855</b>	<b>-</b>
<b>Local authorities in Wales</b>						
Principal Councils	129	60	169	-	3,880	-
Community Councils	-	-	-	-	4	-
Others	7	8	3	-	88	-
	<b>136</b>	<b>68</b>	<b>172</b>	<b>-</b>	<b>3,972</b>	<b>-</b>
<b>Local authorities in Scotland</b>						
Principal Councils	388	351	423	-	9,187	-
Others	-	19	8	-	87	-
	<b>388</b>	<b>370</b>	<b>431</b>	<b>-</b>	<b>9,274</b>	<b>-</b>
<b>Total loans on local revenues</b>	<b>5,162</b>	<b>1,652</b>	<b>2,612</b>	<b>-</b>	<b>70,101</b>	<b>-</b>

	In the year 2017-2018			Balances outstanding as at 31 March 2018			
	Advances £m	Repayments of principal £m	Repayments of interest £m	Principal due but not yet paid £m	Principal outstanding £m	Interest due but not yet paid £m	
<b>Loans on property to harbour authorities</b>							
England	-	-	-	-	-	-	
Wales	-	-	-	-	-	-	
Scotland	-	-	-	-	1	-	
<b>Total loans on property</b>	-	-	-	-	<b>1</b>	-	
<b>Total loans on local revenues and property</b>	<b>5,162</b>	<b>1,652</b>	<b>2,612</b>	-	<b>70,102</b>	-	
<b>Add Totals from 1817 to 31 March 2017*</b>	245,266	178,674	133,887				
<b>Totals from 1817 to 31 March 2018</b>	<b>250,428</b>	<b>180,326</b>	<b>136,499</b>				

\* This shows the total advances, repayments of principal and repayments of interest since the PWLB was permanently established in 1817 till 31 March 2017.

The net present value of future cash flows of this portfolio of loans at 31 March 2018 was £102,969 million.

## Performance analysis

### Applications for loans

During the year, the PWLB agreed 452 applications for loans (2016-2017: 391 applications) and advanced 780 new loans (2016-2017: 622 loans). 231 authorities applied for advances in the year (2016-2017: 211 authorities), including 96 non-principal authorities (2016-2017: 94 non-principal authorities).

### Review by type of loan and borrower

Figure 2 shows loan advances made by the PWLB in 2017-2018 by type of loan and type of borrower. The figure highlights the strong preference for fixed rate loans during the year, such that no variable rate loans were advanced and £5,162 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
<b>Local authorities in England</b>			
County Councils	390	-	390
London Borough Councils	786	-	786
Metropolitan District Councils	957	-	957
Non-Metropolitan District Councils	2,206	-	2,206
Parish and Town Councils	17	-	17
Others	282	-	282
	<b>4,638</b>	-	<b>4,638</b>
<b>Local authorities in Wales</b>			
Principal Councils	129	-	129
Community Councils	-	-	-
Others	7	-	7
	<b>136</b>	-	<b>136</b>
<b>Local authorities in Scotland</b>			
Principal Councils	388	-	388
Others	-	-	-
	<b>388</b>	-	<b>388</b>
	<b>5,162</b>	-	<b>5,162</b>







### 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. £5,127 million of the PWLB's advances in 2017-2018 were made at the Certainty Rate, £4 million at the Project Rate and £31 million at the Standard rate. The principal balance outstanding to the PWLB at 31 March 2018 was £70,102 million (31 March 2017: £66,592 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 £2,592 million (50%) of advances being for longer than 40 years.

Fixed rate loans with a value of £1,267 million (2016-2017: £440 million), or 25% of all advances (2016-2017: 12%), were taken for the maximum period of 50

years. £15 million of fixed rate loans were taken for the minimum period of one year (2016-2017: £4 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 2017-2018, the PWLB advanced £5,162 million of fixed rate loans and no variable rate loans. Over the previous 9 years, the PWLB had advanced £45,587 million of fixed rate loans and £1,119 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 34.6 years in 2017-2018.

Figure 7 demonstrates the continuing popularity of maturity loans, which constituted £4,008 million (78%) of advances in 2017-2018.

Figure 3: Principal outstanding and advanced, month by month

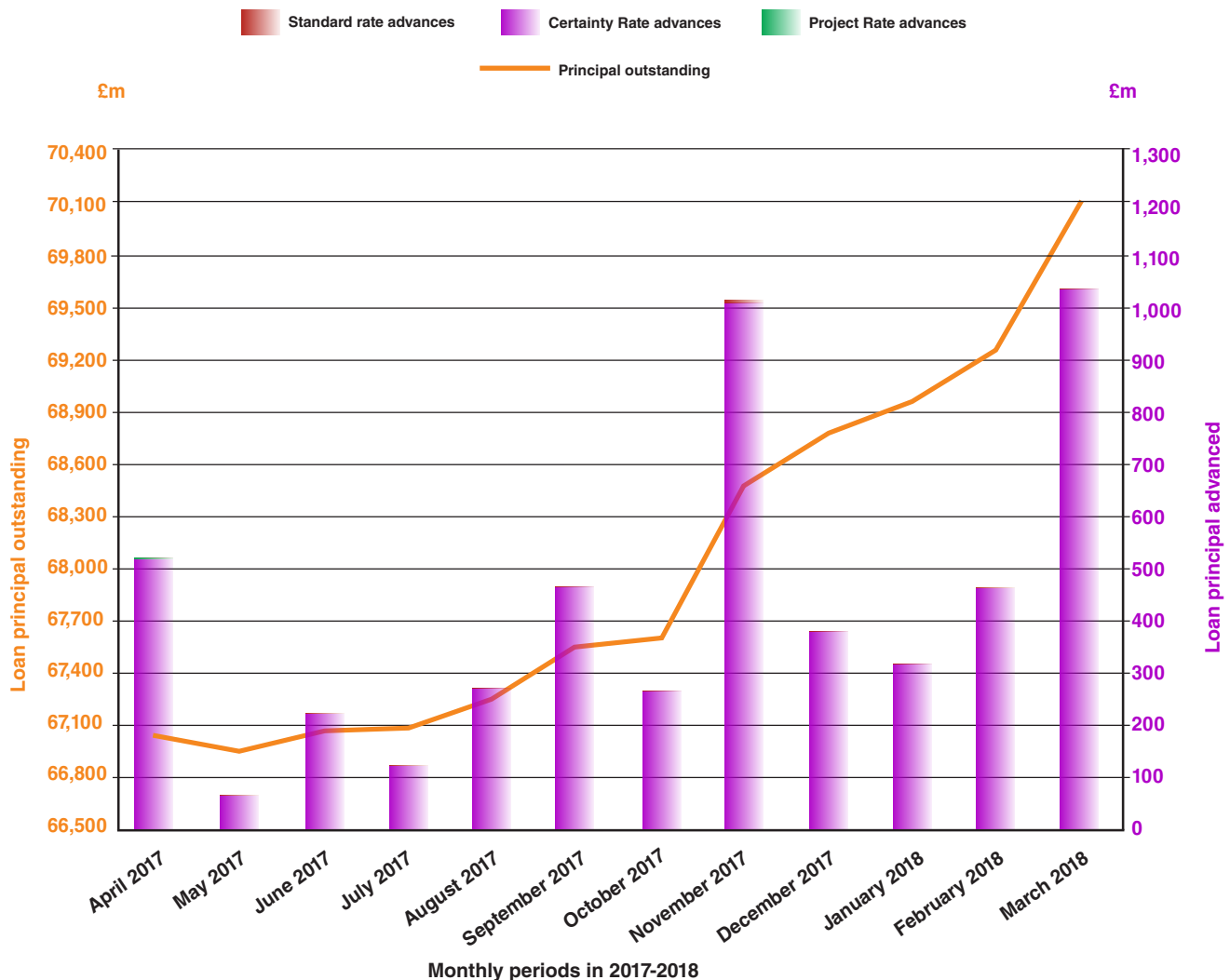


Figure 4: Term till maturity of fixed rate advances in the year and their interest rates

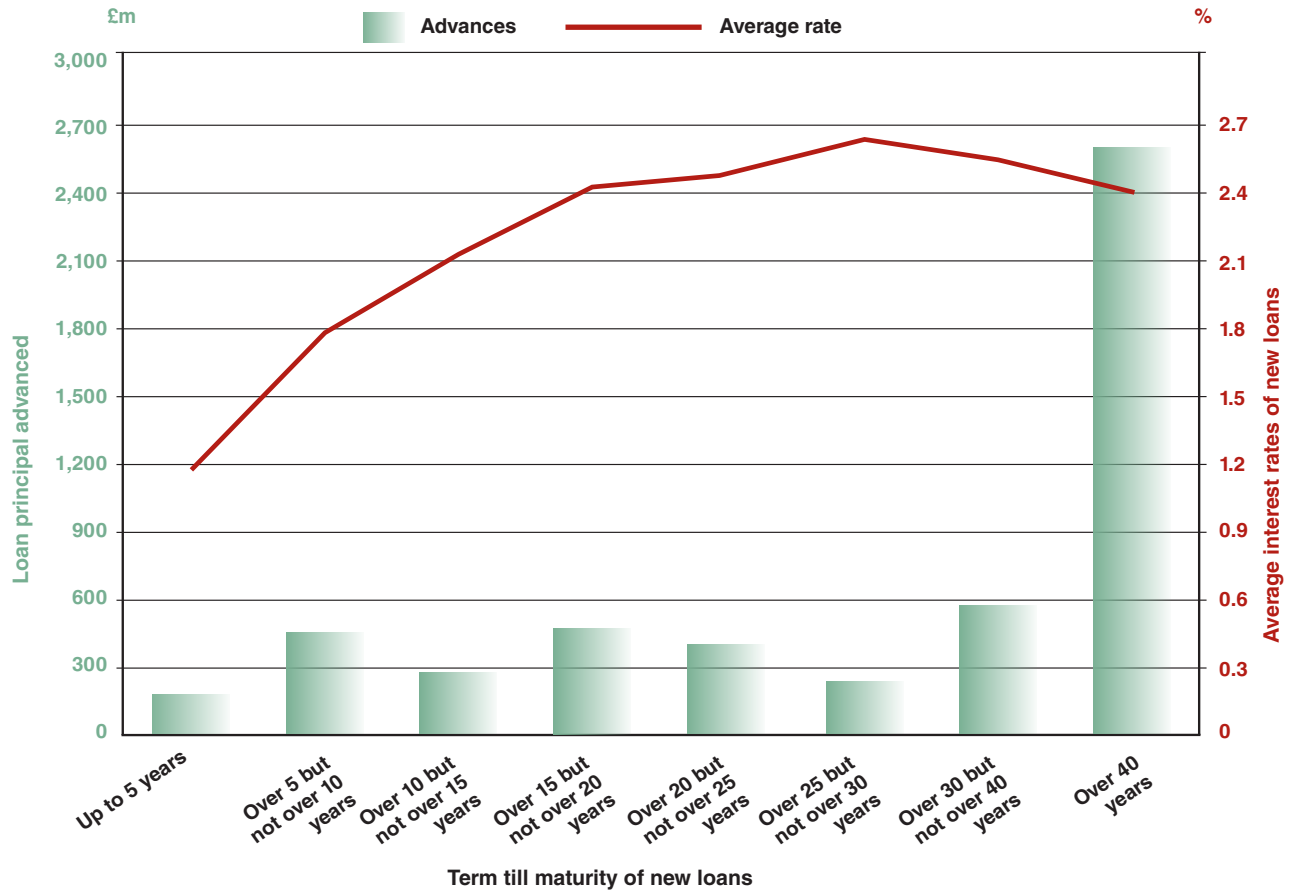


Figure 5: Principal outstanding and advanced, year by year

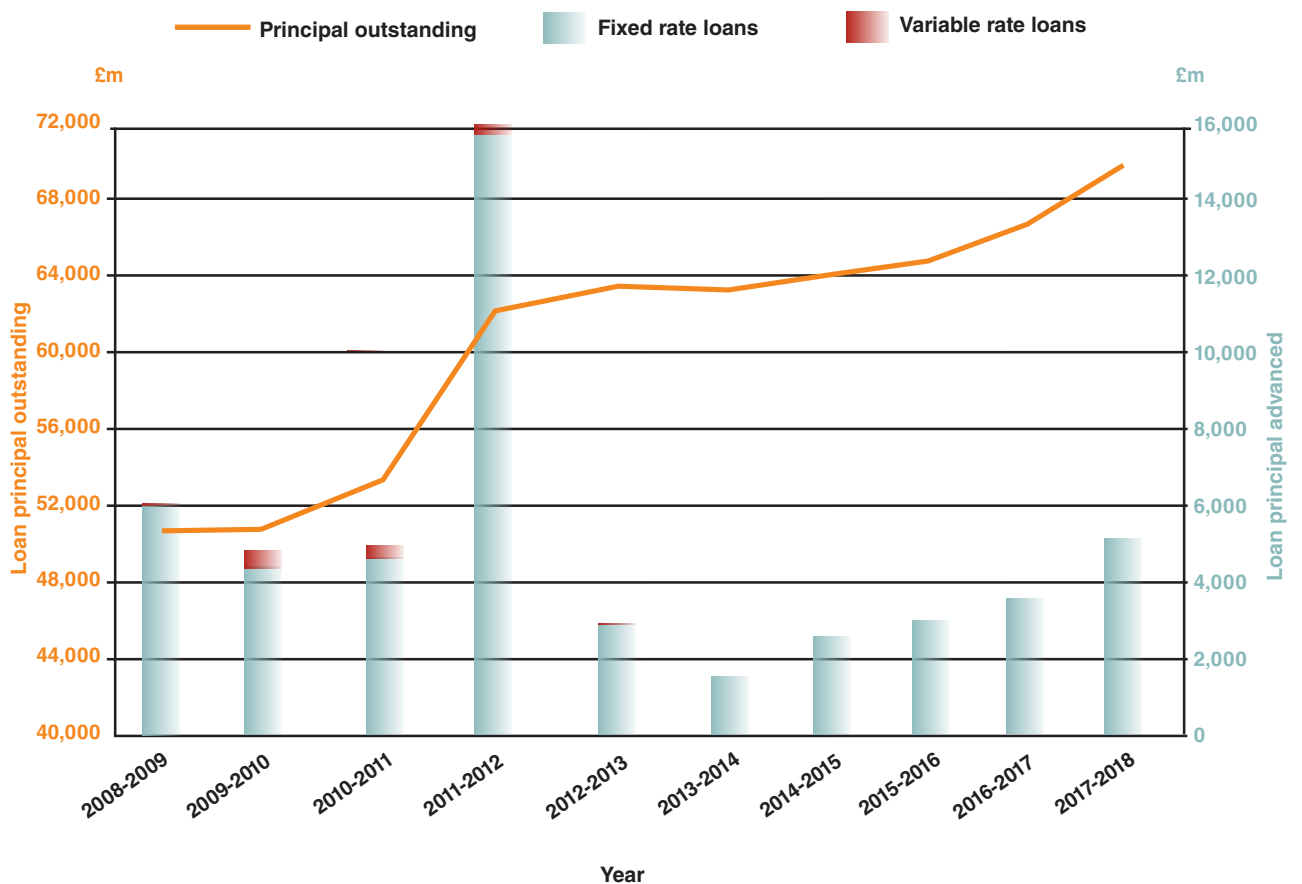


Figure 6: Average rate and term till maturity of advances, year by year

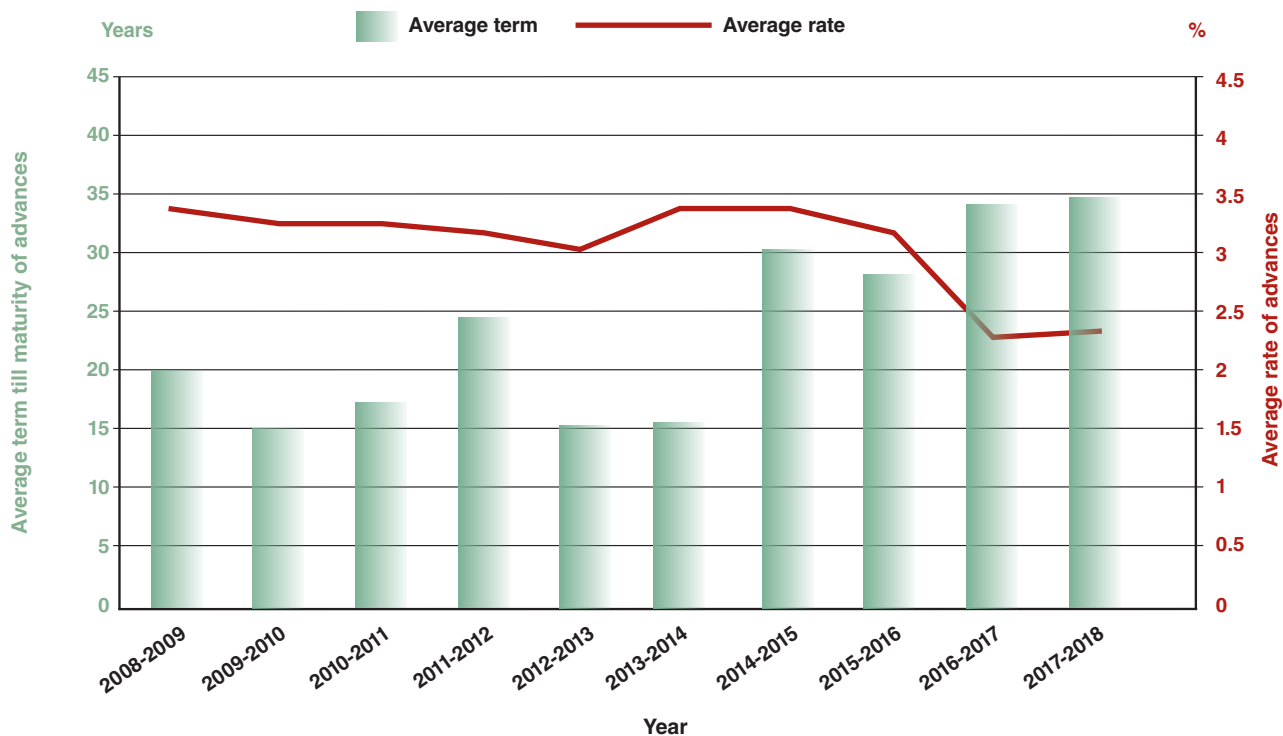




Figure 7: New loans by type and by term till maturity

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	
<b>Fixed rate loans</b>								
Maturity	91	309	161	282	367	516	2,282	4,008
Annuity	63	63	82	86	176	67	309	846
Equal instalments of principal	15	73	40	94	86	-	-	308
	<b>169</b>	<b>445</b>	<b>283</b>	<b>462</b>	<b>629</b>	<b>583</b>	<b>2,591</b>	<b>5,162</b>
<b>Variable rate loans</b>								
Maturity	-	-	-	-	-	-	-	-
Equal instalments of principal	-	-	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>All loans</b>								
Maturity	91	309	161	282	367	516	2,282	4,008
Annuity	63	63	82	86	176	67	309	846
Equal instalments of principal	15	73	40	94	86	-	-	308
	<b>169</b>	<b>445</b>	<b>283</b>	<b>462</b>	<b>629</b>	<b>583</b>	<b>2,591</b>	<b>5,162</b>

### Scheduled and early repayments

When an authority redeems a loan, it is a decision for the authority, subject to the PWLB's lending arrangements, whether to replace the loan with a new loan. The PWLB will treat the replacement loan as a new transaction.

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

Figure 8 summarises early repayments in 2017-2018.

Figure 8: Early repayments

	Number of loans repaid	Principal repaid £m	Premium received £m	Discount paid £m
Fixed rate loans	71	32	20	-
Variable rate loans	2	-	-	-
	<b>73</b>	<b>32</b>	<b>20</b>	<b>-</b>

Early repayments of £32 million were made during the year (2016-2017: £55 million), compared to new advances of £5,162 million (2016-2017: £3,634 million).

The value of loan principal outstanding to borrowers rose by 5.3% year-on-year (2016-2017: 2.7% rise), to £70,102 million from £66,592 million at 31 March 2017.

### Repayments in arrears

There were less than £1 million overdue loan repayments at 31 March 2018 (31 March 2017: less than £1 million). All overdue loan repayments at 31 March 2018 have since been paid.

### Rates of interest

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

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

The PWLB's fixed lending rate for four different maturities and its 3 month variable lending rate for 2017-2018 are shown in Figure 9.

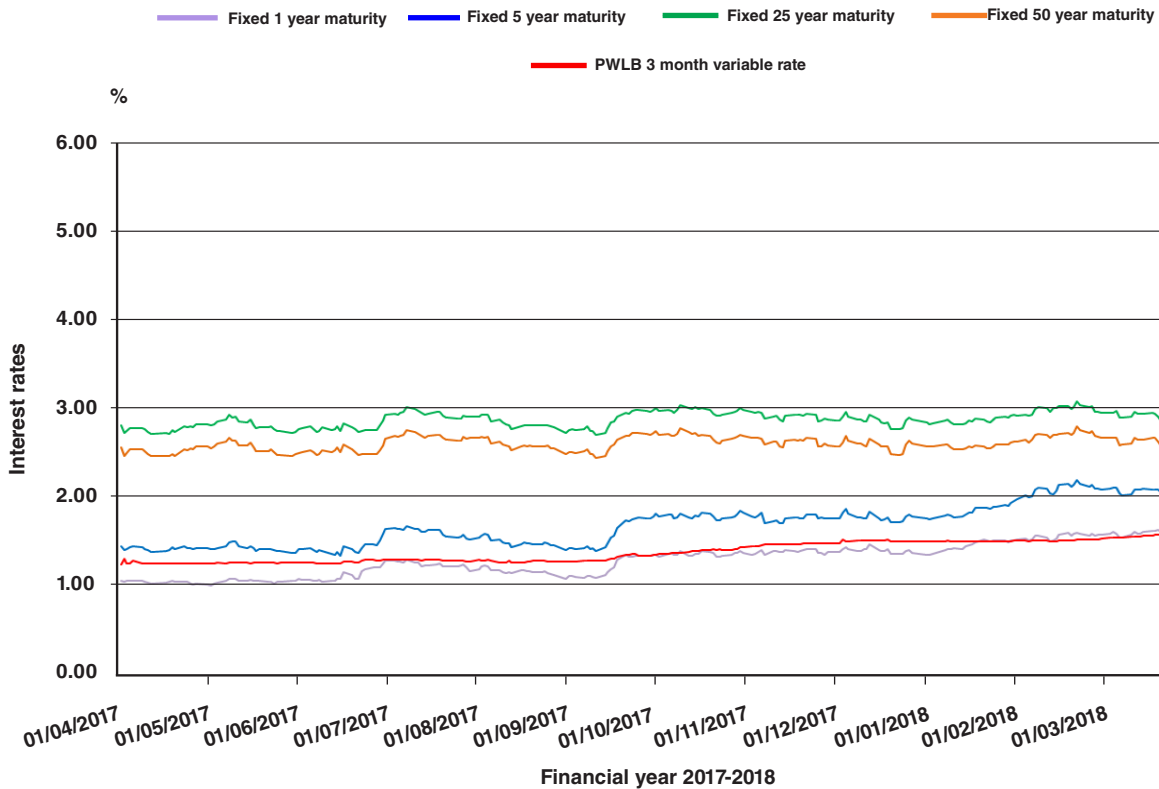
### Concessionary rates

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  
22 June 2018



# Accountability report

The accountability report comprises two sections: a corporate governance report and a parliamentary accountability and audit report. The corporate governance report includes the following information: the responsibilities of the Secretary; the composition, responsibilities and actions of the Managing Board and Audit Committee and how they have supported the Secretary and enabled the objectives of the PWLB; and the key risks faced by the PWLB and how it seeks to manage them. The parliamentary accountability and audit report includes a formal opinion by the PWLB's external auditor to certify that the financial statements give a true and fair view of the state of the PWLB's affairs for the year and that they have been prepared in accordance with all relevant rules.

These two sections contribute to the PWLB's accountability to parliament and comply with best practice in relation to corporate governance norms and codes. In particular, the corporate governance report seeks to do so by describing the key mechanisms the PWLB employs to ensure it maintains high standards of conduct and performance. This includes the statement of Secretary's responsibilities which describes his accountability to Parliament for the PWLB's use of resources and compliance with rules set by HM Treasury to ensure best practice in financial management. The governance statement reflects the applicable principles of the Corporate Governance Code for Central Government Departments. The parliamentary accountability and audit report confirms that expenditure and income of the PWLB have been applied to the purposes intended by Parliament and confirms that information in the parliamentary accountability disclosures has been audited and approved by external auditors.

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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 2017-2018, 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 2017-2018.



## 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;
- ensure that the annual report and accounts as a whole are fair, balanced and understandable, and take responsibility for the judgements required for determining they are fair, balanced and understandable;

- 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 2017-2018 by the DMO Managing Board (the Board) which, in addition to Sir Robert Stheeman (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  
Co-Head of Policy and Markets;
- Richard Hughes  
Non-executive HM Treasury representative;
- 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. He is currently chairman of the GEC 1972 Pension Plan; and
- Paul Fisher  
Non-executive director - During a 26 year career at the Bank of England, Paul Fisher served as a member of the Monetary Policy Committee from 2009 to 2014, the interim Financial Policy Committee from 2011 to 2013 and the PRA Board from 2015 to 2016. He has a number of current roles including Chair of the London Bullion Market Association.



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 December 2017 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 subsequently underwent a full review by the Board in 2017.

### 2017-2018 Managing Board activities

Board meetings were held regularly throughout 2017-2018. In addition to regular agenda items, including risk management, staffing and progress against the operational business plan, the Board has been kept informed of progress towards the implementation of the proposed governance structure that is expected 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 Stheeman	8	8		
Jo Whelan	8	7		
Jim Juffs	8	8		
Jessica Pulay	8	8	<b>Audit Committee</b>	
Richard Hughes	8	5	Possible	Actual
Brain Duffin	8	7	4	4
Paul Fisher	8	8	4	4
Caroline Mawhood	n/a	n/a	4	4

### Audit Committee

The Secretary was supported during 2017-2018 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 2017-2018 were:

- Brian Duffin (Chairman);
- Paul Fisher;
- 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 Committee of the Corporation of London and its Performance and Resource Management Sub (Police) Committee and one of three external members of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breast Cancer Now charity (until September 2016) 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, the Head of Internal Audit and the National Audit Office. 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;
- Whistleblowing 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;
- Operational risk management;
- PWLB lending;
- Staff development and retention;
- Effectiveness of whistleblowing arrangements;
- Anti-money laundering arrangements;
- Payroll overtime payments;
- Corporate governance (policies and Terms of References);
- Security incident and event monitoring;
- IT assets and licence records;
- Project and budget management; and
- Anti-Fraud arrangements.

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 most significant initiative monitored by the Business Delivery Committee during the year was the project to procure a replacement for legacy core trading systems including those for the processing of PWLB loans.

The Business Delivery Committee met regularly (typically weekly) throughout 2017-2018.

#### ■ Risk Committees

The Secretary receives advice from two risk committees covering 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 the committees that are relevant to PWLB activities is described in more detail below.

#### 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 ORC also reviews and tracks the progress of actions identified by Internal Audit. The ORC'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 ORC has focused this year on supplier risk, IT and data security and business continuity planning. The ORC met seven times during 2017-2018.

#### 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 the DMO's core trading system, project work to strengthen the control environment, enhancements to payment controls, ensuring accuracy of data relating to PWLB loans, and the upgrade of the DMO website.

#### Risk Management Unit

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 is the third line of defence and 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 findings relating to control weaknesses. Remedial actions once agreed with management, are monitored for implementation. 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. 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 2017-2018, this included policies relating to confidentiality and official information, spreadsheet controls, IT acceptable usage, information security and whistleblowing.

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 whistleblowing, 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.

During 2017-2018 no concerns were raised by staff under the DMO's whistleblowing policy relating to the PWLB.

## Risk profile

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

Principal risks and uncertainties	Mitigation and management
<p><b>IT systems and infrastructure</b></p> <p>The PWLB relies on a number of IT systems to conduct its operations. In particular, certain systems are central to the PWLB being able to advance loans and manage repayments in an effective and timely way.</p>	<p>During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements and is working to enhance and improve transaction processing systems including increased automation of certain business critical processes. These improvements include the technology contingency processes and the ease of operating from alternative sites. The DMO has in place comprehensive</p>

Principal risks and uncertainties	Mitigation and management
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**IT and data security**

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.

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. Elements of these arrangements were invoked during the year and proved effective with no external impact. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives, including those related to or affecting the PWLB.

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. IT and data security risks continue to be a specific area of focus in 2017-2018 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes.

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.

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 ensuring the DMO's policies and processes are compliant with the new General Data Protection Regulation (GDPR) which came into force in May 2018.

**Reliance on third parties**

A number of the operational systems and services on which the PWLB relies are provided or supported by third party suppliers.

To mitigate the risk of failure of a key third party supplier the DMO undertakes regular corporate risk assessments of each key supplier in order to assess a range of factors including its financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed



Principal risks and uncertainties	Mitigation and management
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Service Level Agreements where appropriate. During the year the DMO formed a cross-team Vendor Management Group to help enhance the processes for managing key suppliers and promote good contract management practice.

During the year the DMO completed a procurement project to purchase a replacement for legacy core trading systems. The supplier of the new system will become a key long-term supplier and will also support the DMO during the implementation project.

### Transaction processing

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.

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.

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.

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 the PWLB operational team have worked closely with the Controls Group to ensure the integrity of loan data in preparation for the planned migration to a new trading system.

### People risk

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.

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.

Principal risks and uncertainties	Mitigation and management
<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 also has 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 2017.</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 2017-2018. 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 2017-2018, 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  
22 June 2018



# 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 from borrowers in respect of new loans issued. These fees 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

## Opinion on financial statements

I certify that I have audited the financial statements of the Public Works Loan Board for the year ended 31 March 2018 under the National Loans Act 1968. The financial statements comprise: the Statements of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 2018 and of Public Works Loan Board's results for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and the HM Treasury directions issued thereunder.

## Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and

Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Public Works Loan Board in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

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.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a

material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Public Works Loan Board's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Public Works Loan Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit

evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Other information

The Commissioners and Secretary are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the National Loans Act;
- in the light of the knowledge and understanding of the Public Works Loan Board and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and 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**

**27 June 2018**

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 2018

	Note	2018 £m	2017 £m
Interest income	2, 3	2,848	2,837
<b>Operating income</b>		<b>2,848</b>	<b>2,837</b>
Interest payable to National Loans Fund		(2,848)	(2,837)
<b>Operating surplus retained</b>		<b>-</b>	<b>-</b>

The notes on pages 46 to 54 form part of these accounts.



## Statement of financial position

As at 31 March 2018

	Note	2018 £m	2017 £m
<b>Assets</b>			
Cash and balances at bank		43	40
Loans and advances	4	70,833	67,086
<b>Total assets</b>		<b>70,876</b>	<b>67,126</b>
<b>Liabilities</b>			
Amounts owed to National Loans Fund	7	70,876	67,126
<b>Total liabilities</b>		<b>70,876</b>	<b>67,126</b>

The notes on pages 46 to 54 form part of these accounts.

### Jason Phillips

Secretary, Public Works Loan Board

22 June 2018

## Statement of cash flows

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
<b>Net cash (used in)/from operating activities</b>	<b>8</b>	<b>(899)</b>	<b>1,067</b>
<b>Financing activities</b>			
Interest paid to National Loans Fund		(2,608)	(2,840)
Increase in loan principal outstanding to National Loans Fund		3,510	1,773
<b>Net cash from/(used in) financing activities</b>		<b>902</b>	<b>(1,067)</b>
<b>Increase in cash</b>		<b>3</b>	<b>-</b>
<b>Cash at the beginning of the year</b>		<b>40</b>	<b>40</b>
<b>Cash at the end of the year</b>		<b>43</b>	<b>40</b>

The notes on pages 46 to 54 form part of these accounts.

# Notes to the accounts for the year ended 31 March 2018

## 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:

- 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.

- IFRS 15 Revenue from Contracts with Customers, which will replace IAS 18. Application is required for reporting periods beginning on or after 1 January 2018. The PWLB expects to apply IFRS 15 in 2018-2019. The application of IFRS 15, which establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers, is expected to have no material impact on the financial statements of 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 2018.

### **(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

	2018 £m	2017 £m
Contractual interest income for fixed rate loans	2,825	2,828
Contractual interest income for variable rate loans	3	4
Premiums received	20	5
	<b>2,848</b>	<b>2,837</b>

## 3 Interest income by country

	2018 England £m	2018 Wales £m	2018 Scotland £m	2018 Total £m
Fixed rate loans	2,205	188	452	2,845
Variable rate loans	3	-	-	3
	<b>2,208</b>	<b>188</b>	<b>452</b>	<b>2,848</b>

	2017 England £m	2017 Wales £m	2017 Scotland £m	2017 Total £m
Fixed rate loans	2,195	192	446	2,833
Variable rate loans	4	-	-	4
	<b>2,199</b>	<b>192</b>	<b>446</b>	<b>2,837</b>

## 4 Loans and advances

	2018 £m	2017 £m
Fixed rate loan principal	69,496	65,976
Variable rate loan principal	606	616
<b>Loan principal outstanding</b>	<b>70,102</b>	<b>66,592</b>
Accrued income on fixed rate loans	730	494
Accrued income on variable rate loans	1	-
<b>Accrued income</b>	<b>731</b>	<b>494</b>
<b>Value of loans outstanding</b>	<b>70,833</b>	<b>67,086</b>

## 5 Loan Principal

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

	<b>2018 Loan Principal</b>	<b>2018 Carrying Value</b>	<b>2018 Fair Value</b>	<b>2018 Weighted average interest rate*</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Fixed rate loans	69,496	70,226	102,362	4.11
Variable rate loans	606	607	607	0.74
	<b>70,102</b>	<b>70,833</b>	<b>102,969</b>	<b>4.08</b>

	<b>2017 Loan Principal</b>	<b>2017 Carrying Value</b>	<b>2017 Fair Value</b>	<b>2017 Weighted average interest rate*</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Fixed rate loans	65,976	66,470	99,537	4.27
Variable rate loans	616	616	616	0.47
	<b>66,592</b>	<b>67,086</b>	<b>100,153</b>	<b>4.24</b>

\* This excludes overdue payments.

The fair value is the net present value of all future contractual cash flows for each loan. These cash flows are discounted at the PWLB's premature repayment rates at 31 March 2018.

The weighted average period to maturity of fixed rate loans at 31 March 2018 was 23.4 years (31 March 2017: 23.0 years).

At 31 March 2018, £14 million of loans (31 March 2017: £146 million) had been confirmed, but not yet advanced.

At 31 March 2018, there were no loans which borrowers had confirmed their intention to repay early (31 March 2017: 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**

	<b>2018 Principal outstanding by period till maturity  £m</b>	<b>2018 Principal outstanding by period of interest rate fix*  £m</b>	<b>2017 Principal outstanding by period till maturity  £m</b>	<b>2017 Principal outstanding by period of interest rate fix*  £m</b>
Up to 1 month / repayable on demand	256	394	78	216
More than 1 month but not more than 3 months	253	375	253	385
More than 3 months but not more than 1 year	1,340	1,652	1,376	1,713
More than 1 year but not more than 5 years	8,230	7,658	7,597	6,990
More than 5 years but not more than 10 years	9,845	9,845	9,337	9,337
More than 10 years but not more than 20 years	15,368	15,368	15,511	15,511
More than 20 years but not more than 30 years	8,475	8,475	8,297	8,297
More than 30 years but not more than 40 years	16,663	16,663	14,821	14,821
More than 40 years	9,672	9,672	9,322	9,322
	<b>70,102</b>	<b>70,102</b>	<b>66,592</b>	<b>66,592</b>

\* 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**

	<b>2018 Principal outstanding  £m</b>	<b>2017 Principal outstanding  £m</b>
England	56,855	53,430
Wales	3,972	3,905
Scotland	9,275	9,257
	<b>70,102</b>	<b>66,592</b>



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

	2018 £m	2017 £m
New loans	5,162	3,634
Loans maturing	(1,620)	(1,805)
Loans redeemed early	(32)	(55)
<b>Net increase in loan principal</b>	<b>3,510</b>	<b>1,774</b>

## 7 Amounts owed to National Loans Fund

	2018 £m	2017 £m
Loan principal outstanding to borrowers	70,102	66,592
Accrued income on loans to borrowers	731	494
	<b>70,833</b>	<b>67,086</b>
Loan repayments not yet surrendered to National Loans Fund	43	40
	<b>70,876</b>	<b>67,126</b>

## 8 Reconciliation of operating income to net cash (used in)/from operating activities

	Note	2018 £m	2017 £m
Operating income		2,848	2,837
Increase in loan principal outstanding to customers	6	(3,510)	(1,774)
(Increase)/decrease in accrued income		(237)	4
<b>Net cash (used in)/from operating activities</b>		<b>(899)</b>	<b>1,067</b>

## 9 Risk management

The PWLB's management of its risk exposure is described below.

### Credit risk

Credit risk is the risk that a counterparty will fail to discharge a contractual obligation, resulting in financial loss to the PWLB. Any such loss would be borne by the National Loans Fund.

#### Risk measurement

The credit risk exposures of the PWLB are shown below:

	Cash held at bank £m	Major local authorities £m	Parish councils and drainage boards £m	Harbour boards £m	Total £m
<b>2018</b>					
Cash and balances at bank	43	-	-	-	43
Loans outstanding to borrowers	-	70,584	248	1	70,833
<b>Total</b>	<b>43</b>	<b>70,584</b>	<b>248</b>	<b>1</b>	<b>70,876</b>
Loans confirmed but not advanced	-	13	1	-	14
<b>2017</b>					
Cash and balances at bank	40	-	-	-	40
Loans outstanding to borrowers	-	66,840	245	1	67,086
<b>Total</b>	<b>40</b>	<b>66,840</b>	<b>245</b>	<b>1</b>	<b>67,126</b>
Loans confirmed but not advanced	-	146	-	-	146

The PWLB's banking services are provided by the Government Banking Service.

The value of the loans above are based on carrying amounts as reported in the statement of financial position.

There were less than £1 million overdue loan repayments at 31 March 2018 (31 March 2017: less than £1 million). All overdue loan repayments at 31 March 2018 have since been paid.

There were no renegotiated loans or assets considered impaired at 31 March 2018 (31 March 2017: 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 Ministry of Housing, 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 & 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 2018 (31 March 2017: 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 2018 was £70,876 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 Events after the reporting date

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the Secretary authorises the accounts for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.



	100,000		
	200,000		
	3,000		
	100,000		
	7,000		
	103,340		
	501,500		
	14,000		
the buildings.			
Certificates, in 1891			
under floor Law	2,179,377	"	"
	18,260	"	"
	8,410,577	"	"
	215,241	7	1
Britain	£ 8,574,108	7	1



# Accounts Direction





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

1. This direction applies to the Public Works Loan Board.
2. The Public Works Loan Board shall prepare accounts for the year ending 31 March 2012 and each subsequent financial year, which give a true and fair view of its state of affairs at the reporting date, and of its income and expense and cash flows for the year then ended.
3. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.
4. The accounts shall present a statement of comprehensive income, a statement of financial position and a statement of cash flows. The statement of financial position shall present assets and liabilities in order of liquidity.
5. The notes to the accounts shall include disclosure of assets and liabilities, and of income and expense, relating to other central government funds including the National Loans Fund.
6. The report shall include:
  - (i) a foreword
  - (ii) a management commentary, including information on financial performance and financial position; and
  - (iii) a governance statement.
7. This accounts direction shall be reproduced as an appendix to the accounts.
8. This accounts direction supersedes all previous Directions issued by HM Treasury.

### **Chris Wobschall**

Deputy Director, Assurance and Financial Reporting Policy, HM Treasury  
23 March 2012

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

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

Alternatively, the DMO can be contacted at:

United Kingdom Debt Management Office  
Eastcheap Court  
11 Philpot Lane  
London  
EC3M 8UD



