



United Kingdom  
Debt Management  
Office

**PWLB**

**Annual Report and Accounts 2019-2020**



**PWLB Annual Report and Accounts 2019 – 2020**

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

Ordered by the House of Commons  
to be printed on 14 July 2020



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# Performance report

The purpose of the overview is to provide sufficient information to understand the 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

### Accounting Officer's statement

During 2019-2020, the Public Works Loan Board function ("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. Also during the year there was a change of governance for the function. On 25 February 2020, the PWLB in the form of the Public Works Loan Commissioners ("the Commissioners"), was abolished. With effect from that date, the function and powers to lend were transferred to HM Treasury, which delegated subsequent responsibility for the operation of the new reporting entity (known as the PWLB lending facility) to the current Accounting Officer from 25 February 2020. Throughout this governance transition, the function continued to operate seamlessly.

The PWLB advanced 1,094 new PWLB loans with a value of £10,422 million to local authorities in the year. The majority (£8,097 million) of these loans were maturity loans. However, the PWLB also continued to offer both annuity and equal instalments of principal loans, constituting £861 million and £1,464 million respectively of loans advanced in 2019-2020, therefore providing 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 sixteen thousand loans, which had a carrying value of £86,258 million at 31 March 2020. In 2019-2020, £3,045 million of interest income was generated on PWLB loans across more than 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 PWLB 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 Board of Loan Commissioners and transfer its function to another entity. HM Government consulted on this proposed abolition and transfer of the Board's function in May 2016. The results of this consultation were published in November 2016, concluding that the Board should be abolished and its powers and functions transferred to HM Treasury. Parliament legislated to enact the reform set out in the consultation, with the effect that the powers, duties, assets and liabilities of the Board of Loan Commissioners were transferred to HM Treasury on 25 February 2020 under the Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020.

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

I would also like to express my immense gratitude to all PWLB Commissioners throughout the long history of the PWLB, and particularly those who facilitated the transition to the new governance arrangements. The help and support they provided was greatly appreciated.

**Sir Robert Stheeman**

Accounting Officer

9 June 2020

## Purpose and principal activities of the PWLB

**This publication presents the Annual Report and Accounts of the PWLB function for the year ended 31 March 2020. The accounts have been prepared by the UK Debt Management Office (DMO) 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 Lords Commissioners of HM Treasury, under section 5(3) of the Public Works Loans Act 1875 (the 1875 Act), to report annually to Parliament.**

The Report and Accounts show loans advanced by the PWLB (both by HM Treasury and by the Public Works Loan Commissioners) in the financial year and the repayments received from borrowers. The accounts do not show the resources that have been used to deliver the PWLB's functions, which are reported in the United Kingdom Debt Management Office Report and Accounts 2019-2020.

### Background to the PWLB

The Public Works Loan Board was a statutory body that originated in 1793 and became permanently established in 1817. It dated in its more recent form from the 1875 Act. Between 1946 and 2020 it consisted of a maximum of twelve Commissioners appointed by the Crown to hold office for four years. Under the 1875 Act, they were not allowed to receive any salary, fee or emolument. More recently, these posts were held in order that the function of central government lending to local government complied with statute. In practice, the PWLB function has been administered by the DMO since July 2002. Since 25 February 2020, the DMO has administered the function on behalf of HM Treasury after the relevant powers to issue PWLB loans were formally transferred from the Commissioners to HM Treasury under the Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020.

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

Before 25 February 2020, the Commissioners delegated to the Secretary day-to-day administrative and reporting activities connected with advancing loans and collecting due payments. The Secretary's role was analogous to being Accounting Officer of the PWLB and he attended meetings of the Commissioners, which took place annually. Since 25 February 2020, HM Treasury has delegated the administration of the function to the Chief Executive of the DMO, who is also accountable for the activities of the new statutory official, the Public Works Loans Secretary, where they are a member of DMO staff.

Borrowers are local authorities (plus a small number of other eligible public bodies) requiring loans mainly for capital purposes. While HM Treasury 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.

PWLB loans 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

During 2019-20, Jason Phillips was the Secretary of the PWLB up to 25 February 2020 and the Public Works Loans Secretary from 25 February 2020 onwards. The PWLB Commissioners holding office from 1 April 2019 up to 25 February 2020 were as shown below.

Original appointment began		Appointment ended
2009	<p><b>John Campbell (Chair)</b> Former Director of Corporate Resources, Scottish Borders Council</p>	2020
2010	<p><b>Maureen Wellen (Deputy Chair)</b> Former Assistant Director, Chartered Institute of Public Finance and Accountancy</p>	2020
2009	<p><b>Richard Gibson</b> Former member, Senior Civil Service, Office of the Deputy Prime Minister</p>	2020
2013	<p><b>Mike Weaver</b> Former Director of Financial Services, Worcestershire County Council Former President, Chartered Institute of Public Finance and Accountancy</p>	2020
2015	<p><b>Joanne Fintzen</b> Former European General Counsel Citi Capital Advisors</p>	2020
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>	2020

## Governance and membership of the PWLB

Prior to 25 February 2020, statute required the Crown to appoint up to 12 Commissioners (one of whom to act as Chair and another as Deputy Chair) and this process was done under normal public appointment procedures (e.g. advert on Cabinet Office website). By law, Commissioners were not remunerated for their services. The Commissioners met once a year to review the previous PWLB report and accounts prepared by the DMO. They had no role in the operational processes or the day-to-day management of the PWLB function and did not see loan applications.

Since 25 February 2020, HM Treasury has had the relevant powers (previously held by the Public Works Loan Commissioners) to issue PWLB loans 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 (MHCLG), for which they should approach their County Association of Local Councils or, in the case of Welsh councils, the Welsh Government. HM Treasury, through the PWLB lending facility, also provides loans to drainage boards. Applicants for loans will need a loan consent from the Department for Environment, Food and Rural Affairs. The approvals must be in place before loan applications can be made to the DMO on behalf of HM Treasury.

HM Treasury also provides PWLB loans 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 the MHCLG. Local authorities in England must have regard to these codes regardless of whether they borrow from HM Treasury, through the PWLB lending facility, or any other lender. HM Treasury requires assurance from the authority that it is borrowing within relevant legislation and its borrowing powers.

Operationally, the PWLB function is administered as part of the DMO, an executive agency of HM Treasury, and staff working on PWLB lending activities are employees of the DMO. The operations of the PWLB lending facility are subject to the same control framework as the DMO's operations as a whole.

The DMO operates the PWLB lending facility within policy and the relevant terms and arrangements determined by HM Treasury.

Responsibility for local authority spending and borrowing decisions lies with the locally-elected members of the council, who are democratically accountable to their electorates. Local authorities are not required to provide information on the purpose of a loan when borrowing from the PWLB.

## Statutory provisions for loans

The following section describes the relevant statutory provisions that, prior to 25 February 2020, were vested in the Public Works Loan Commissioners and were transferred to HM Treasury on that date with immediate effect.

Section 3 (11) and Schedule 4 of the 1968 Act authorises HM Treasury 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. HM Treasury also has the powers to lend to certain harbours, but as a matter of government policy no longer do so.

The amount which HM Treasury may lend, or undertake to lend, is provided by Section 4 of the 1968 Act, which permits HM Treasury 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 HM Treasury through

the PWLB lending facility. Section 300 of the Finance Act 2014 came into force on 1 December 2017 and set the limit in Section 4(1) of the 1968 Act to £85 billion together with a provision to change this limit (up or down) to a maximum of £95 billion as specified by HM Treasury in an order made by statutory instrument and, on 8 October 2019, the Local Loans (Increase of Limit) Order 2019 duly increased this limit to £95 billion.

The PWLB lending facility 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 lending facility are paid over to the National Loans Fund. All interest and premiums on early redemption paid to the PWLB lending facility 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 through the PWLB lending facility 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 lending facility:

- 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

HM Treasury is able to issue PWLB loans 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. HM Treasury, via the DMO, requires, as part of the loan application process set out in its Operational Circular, a statement of confirmation from the borrowing authority that the application is within the relevant legislation and the authority's borrowing powers. Loans are automatically secured by statute on the revenues of the authority and HM Treasury will not refuse an application if satisfied that it conforms to the policy framework governing its lending arrangements. When local authorities borrow they must have regard to the Prudential Framework as set out by the Chartered Institute of Public Finance and Accountancy (CIPFA), and by the Ministry of Housing, Communities and Local Government (MHCLG), Scottish Government, or Welsh Government as applicable to ensure they are borrowing prudently. HM Treasury may refer to these bodies or seek further assurance from the local authority to satisfy itself about the conformity of a loan application.

Borrowers can request to repay loans before their due date. Under the policy framework, HM Treasury, via the DMO, accepts early repayments, but only on terms which do not favour the borrower over the National Loans Fund. HM Treasury's lending policy and operational arrangements are publicised in Circulars available on the Local Authority Lending pages of the DMO's website at [www.dmo.gov.uk/responsibilities/local-authority-lending/lending-arrangements/](http://www.dmo.gov.uk/responsibilities/local-authority-lending/lending-arrangements/).

## Future developments

In March 2020, HM Treasury published a consultation entitled Public Works Loan Board: future lending terms. The consultation aims to work with local authorities, sector representatives, and wider stakeholders to develop a targeted intervention to stop "debt for yield" activity while protecting the crucial work that local government does on service delivery, housing, and regeneration. The government's overall aim in this is to secure the effective operation of the prudential system for local councils, taxpayers and for all that rely on local services.

## Performance summary

The PWLB received interest income in the year of £3,045 million (2018-2019: £2,900 million). This comprised £3,045 million of contractual interest income (2018-2019: £2,900 million), and less than £1 million of premiums received due to the early redemption of loans (2018-2019: less than £1 million).

Year on year, the PWLB's interest income increased by £145 million. Increases in contractual interest income was responsible for all of this £145 million increase. Premiums received remained unchanged year on year.

The PWLB advanced 1,094 new loans to borrowers with a value of £10,422 million (2018-2019: 1,308 loans with a value of £9,131 million).

The PWLB's borrowers redeemed loans early with a principal value of £21 million in 2019-2020 (2018-2019: £3 million).

At 31 March 2020, the PWLB held loan assets of £86,258 million (31 March 2019: £78,290 million), inclusive of accrued income receivable of £564 million (31 March 2019: £769 million). The PWLB also held a cash balance of £308 million (31 March 2019: £47 million) comprising monies in transition between the National Loans Fund and the PWLB's borrowers.

Figure 1 sets out the loans advanced, 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 2020, the average period to maturity of fixed rate loans had increased to 24.4 years (31 March 2019: 24.2 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 3.62% (31 March 2019: 3.86%).

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.

The PWLB's performance was unaffected by the governance changes on 25 February 2020.

### Key issues and risks

The key issues and risks facing the PWLB are considered in the governance statement on page 28 to 37.

### Fees and charges

The fees charged to borrowers for each new PWLB loan as well as the administrative costs of the PWLB are accounted for within the DMO's overall budget, as agreed with HM Treasury. In 2019-2020, the DMO received fees of £3.6 million from the PWLB's borrowers in respect of new loans issued (2018-2019: £3.2 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 2019-2020			Balances outstanding as at 31 March 2020		
	Loans advanced £m	Repayments of principal £m	Payments of interest £m	Principal due but not yet paid £m	Principal outstanding £m	Interest due but not yet paid* £m
<b>Loans secured on local revenue to:</b>						
<b>Local authorities in England</b>						
County Councils	1,332	283	466	-	11,182	-
London Borough Councils	1,670	275	439	-	12,150	-
Metropolitan District Councils	1,696	363	537	-	14,123	-
Non-Metropolitan District Councils	3,000	570	778	-	24,590	4
Others	936	218	376	-	8,266	-
	<b>8,634</b>	<b>1,709</b>	<b>2,596</b>	<b>-</b>	<b>70,311</b>	<b>4</b>
<b>Local authorities in Scotland</b>						
Unitary Councils	1,427	446	432	-	10,492	-
Others	-	15	14	-	194	-
	<b>1,427</b>	<b>461</b>	<b>446</b>	<b>-</b>	<b>10,686</b>	<b>-</b>
<b>Local authorities in Wales</b>						
Unitary Councils	343	68	210	-	4,592	-
Others	18	11	4	-	104	-
	<b>361</b>	<b>79</b>	<b>214</b>	<b>-</b>	<b>4,696</b>	<b>-</b>
<b>Total loans on local revenues</b>	<b>10,422</b>	<b>2,249</b>	<b>3,256</b>	<b>-</b>	<b>85,693</b>	<b>4</b>

	In the year 2019-2020			Balances outstanding as at 31 March 2020		
	Loans advanced £m	Repayments of principal £m	Payments of interest £m	Principal due but not yet paid £m	Principal outstanding £m	Interest due but not yet paid* £m
<b>Loans secured on property to harbour authorities</b>						
England	-	-	-	-	-	-
Scotland	-	-	-	-	1	-
Wales	-	-	-	-	-	-
<b>Total loans on property</b>	-	-	-	-	<b>1</b>	-
<b>Total loans on local revenues and property</b>	<b>10,422</b>	<b>2,249</b>	<b>3,256</b>	<b>-</b>	<b>85,694</b>	<b>4</b>

\* All interest payments due from borrowers but not yet paid as at 31 March 2020 have since been paid.

The net present value of future cash flows of this portfolio of loans at 31 March 2020 was £140,572 million.

## Performance analysis

### Applications for loans

During the year, the PWLB received applications for loans resulting in 1,094 new loans being advanced (2018-2019: 1,308 loans). These new loans were provided to 300 different authorities (2018-2019: 294 authorities).

### Review by type of loan and borrower

Figure 2 shows loan advances made by the PWLB in 2019-2020 by type of loan and type of borrower. The figure highlights the strong preference for fixed rate loans during the year, such that £10,417 million of fixed rate loans were advanced and only £5 million of variable rate loans were advanced.

Figure 2: Loans advanced by type of loan and borrower

	Fixed rate £m	Variable rate £m	Total £m
<b>Local authorities in England</b>			
County Councils	1,327	5	1,332
London Borough Councils	1,670	-	1,670
Metropolitan District Councils	1,696	-	1,696
Non-Metropolitan District Councils	3,000	-	3,000
Others	936	-	936
	<b>8,629</b>	<b>5</b>	<b>8,634</b>
<b>Local authorities in Scotland</b>			
Unitary Councils	1,427	-	1,427
Others	-	-	-
	<b>1,427</b>	<b>-</b>	<b>1,427</b>
<b>Local authorities in Wales</b>			
Unitary Councils	343	-	343
Others	18	-	18
	<b>361</b>	<b>-</b>	<b>361</b>
	<b>10,417</b>	<b>5</b>	<b>10,422</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. £9,070 million of the PWLB's loan advances in 2019-2020 were made at the Certainty Rate, £235 million at the Local Infrastructure Rate, £200 million at the Project Rate, £875 million at the Housing Revenue Account (HRA) Rate and £42 million at the Standard rate. The loan principal balance outstanding to the PWLB at 31 March 2020 was £85,694 million (31 March 2019: £77,521 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 £3,978 million (38%) of loan advances being for longer than 40 years.

Fixed rate loans with a value of £1,943 million (2018-

2019: £1,922 million), or 19% of all loan advances (2018-2019: 21%), were taken for the maximum period of 50 years. £386 million of fixed rate loans were taken for the minimum period of only one year (2018-2019: less than £1 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 2019-2020, the PWLB advanced £10,417 million of fixed rate loans and £5 million of variable rate loans. Over the previous 9 years, the PWLB had advanced £49,017 million of fixed rate loans and £647 million of variable rate loans (1% of the total).

Figure 6 shows the pattern of rates and the term till maturity of loans advanced over the previous 10 years. The weighted average term till maturity for loans advanced was 29.7 years in 2019-2020.

Figure 7 demonstrates the continuing popularity of maturity loans, which constituted £8,097 million (78%) of loans advanced in 2019-2020.

Figure 3: Loan principal outstanding and advanced, month by month

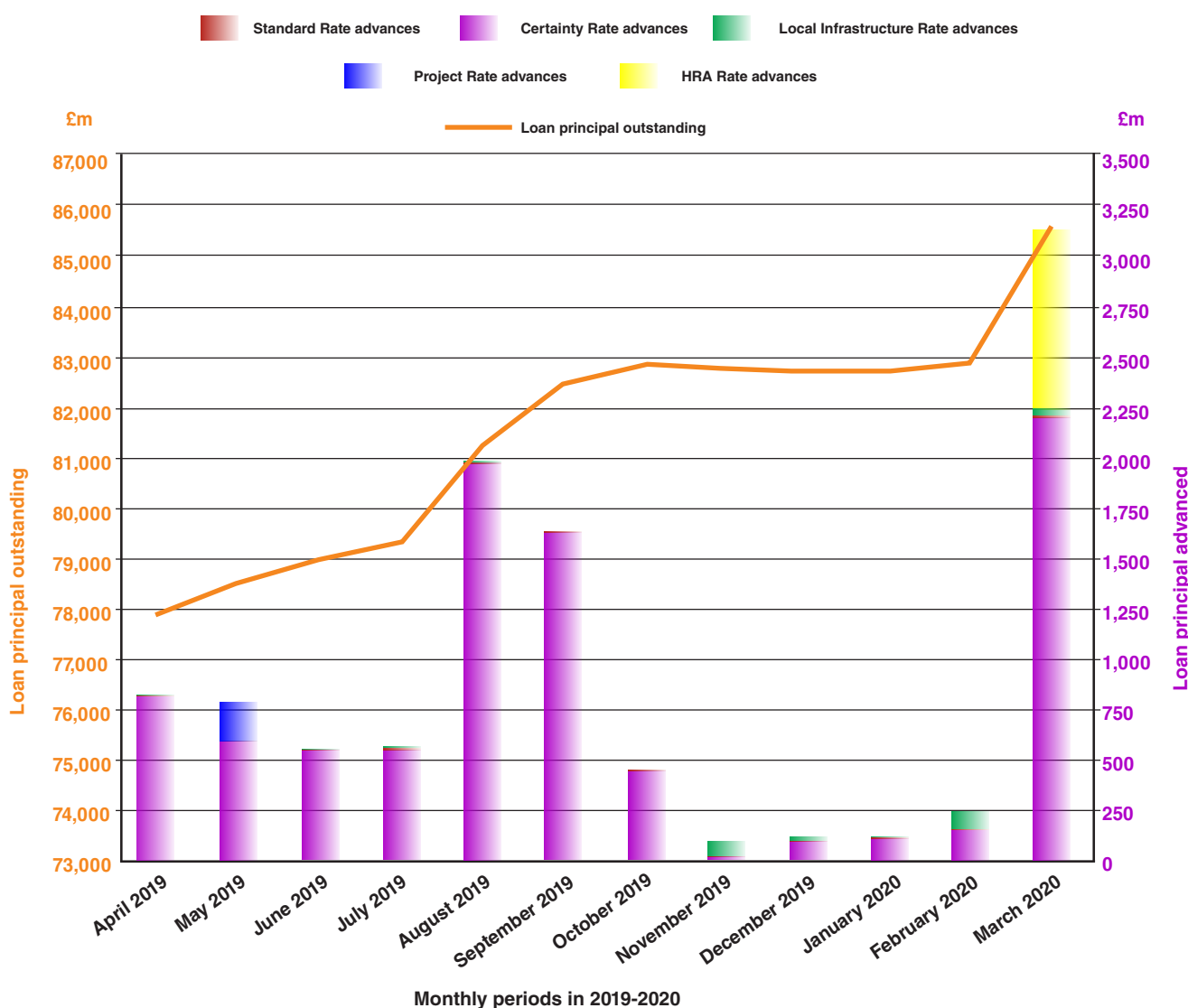


Figure 4: Term till maturity of fixed rate loans advanced in the year and their interest rates

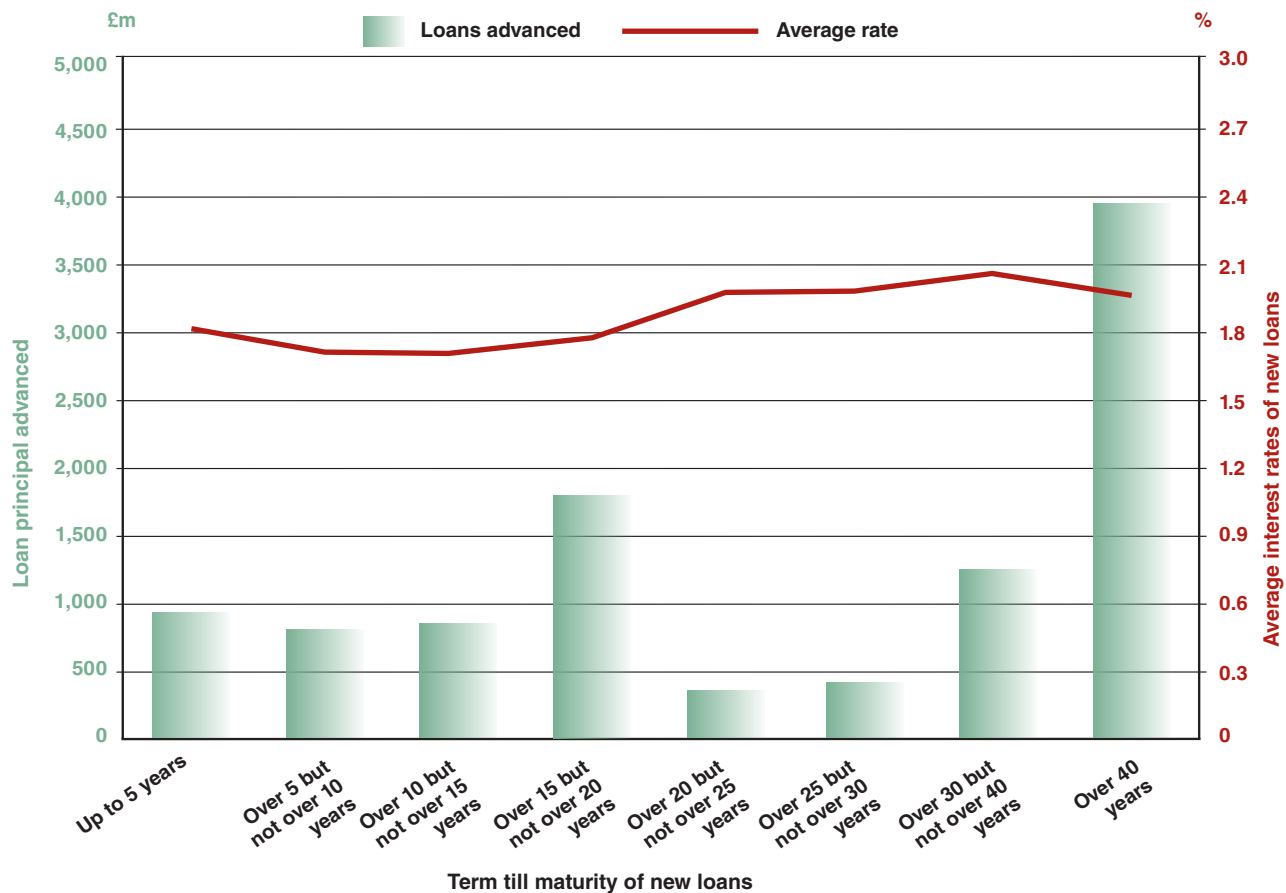


Figure 5: Loan principal outstanding and advanced, year by year

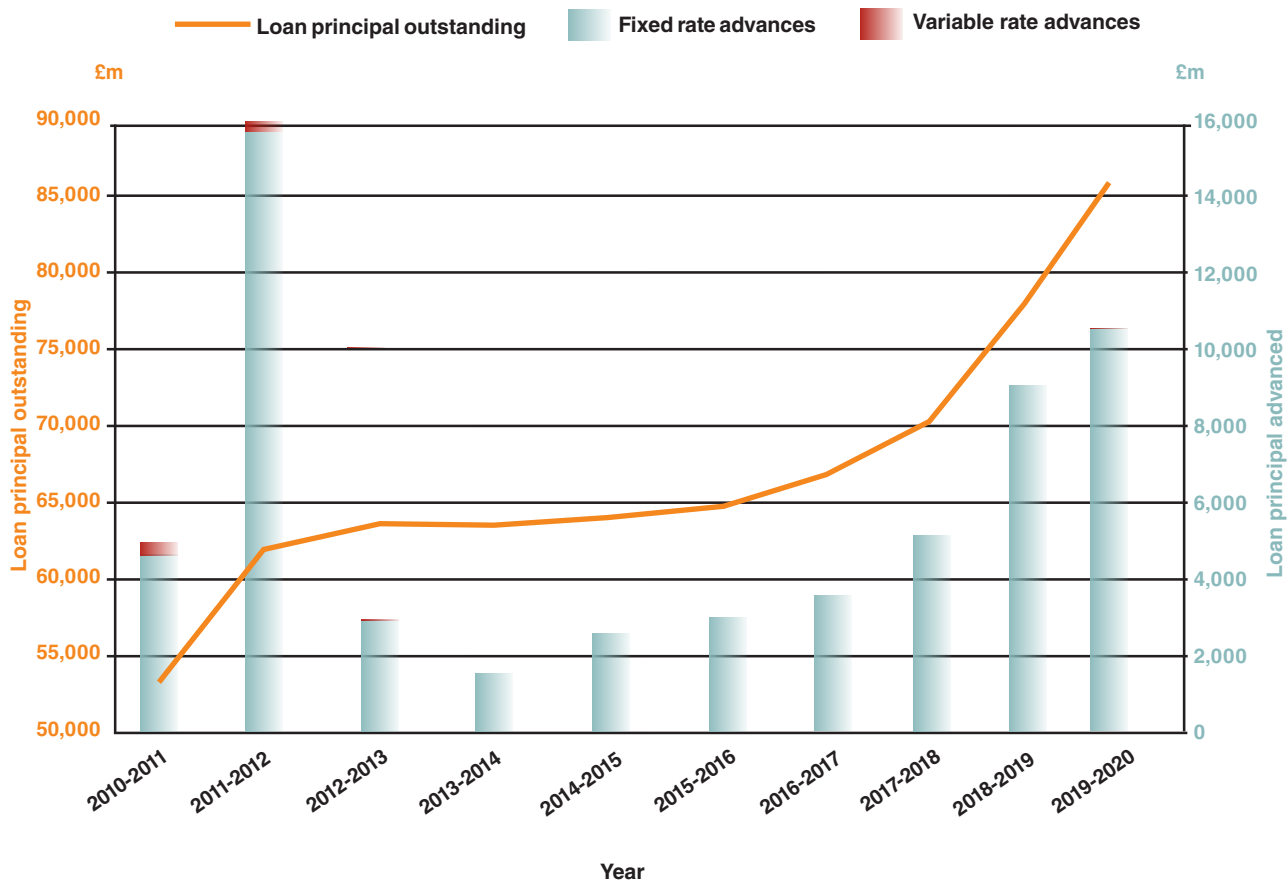


Figure 6: Average rate and term till maturity of loans advanced, year by year

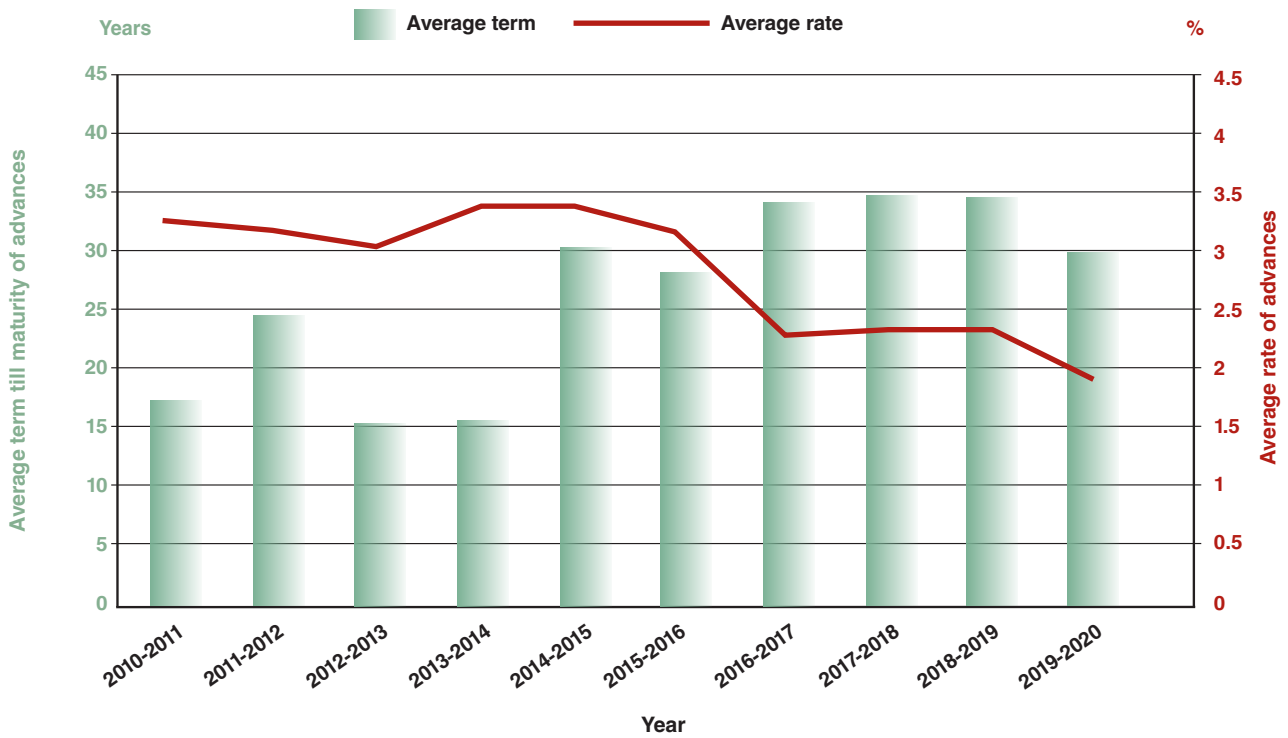


Figure 7: Loans advanced in the year, by type and by term till maturity

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	836	698	700	896	314	936	3,712	8,092
Annuity	-	1	5	196	126	272	262	862
Equal instalments of principal	115	128	169	671	346	30	4	1,463
	<b>951</b>	<b>827</b>	<b>874</b>	<b>1,763</b>	<b>786</b>	<b>1,238</b>	<b>3,978</b>	<b>10,417</b>
<b>Variable rate loans</b>								
Maturity	5	-	-	-	-	-	-	5
Equal instalments of principal	-	-	-	-	-	-	-	-
	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>
<b>All loans</b>								
Maturity	841	698	700	896	314	936	3,712	8,097
Annuity	-	1	5	196	126	272	262	862
Equal instalments of principal	115	128	169	671	346	30	4	1,463
	<b>956</b>	<b>827</b>	<b>874</b>	<b>1,763</b>	<b>786</b>	<b>1,238</b>	<b>3,978</b>	<b>10,422</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 early repayment rate at the time is higher or lower than the loan rate.

Figure 8 summarises early repayments in 2019-2020.

Figure 8: Early repayments

	Number of loans repaid	Principal repaid £m	Premium received £m	Discount paid £m
Fixed rate loans	19	21	-	-
Variable rate loans	2	-	-	-
	<b>21</b>	<b>21</b>	-	-

Early repayments of £21 million were made during the year (2018-2019: £3 million), compared to new loan advances of £10,422 million (2018-2019: £9,131 million).

The value of loan principal outstanding to borrowers rose by 10.5% year-on-year (2018-2019: 10.6% rise), to £85,694 million from £77,521 million at 31 March 2019.

### Repayments in arrears

There were £4 million overdue loan repayments at 31 March 2020 (31 March 2019: less than £1 million). All overdue loan repayments at 31 March 2020 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 2019-2020 are shown in Figure 9.

As can be seen in Figure 9, on 9 October 2019, due to substantial increases in PWLB loans advanced (following recent falls in PWLB loan rates to record lows), HM Treasury restored interest rates on PWLB loans to levels available in 2018, by increasing the margin applied to new loans from the PWLB by 1%.

### Concessionary rates

The PWLB offers loans at rates below the standard

rate in accordance with certain schemes agreed with HM Treasury.

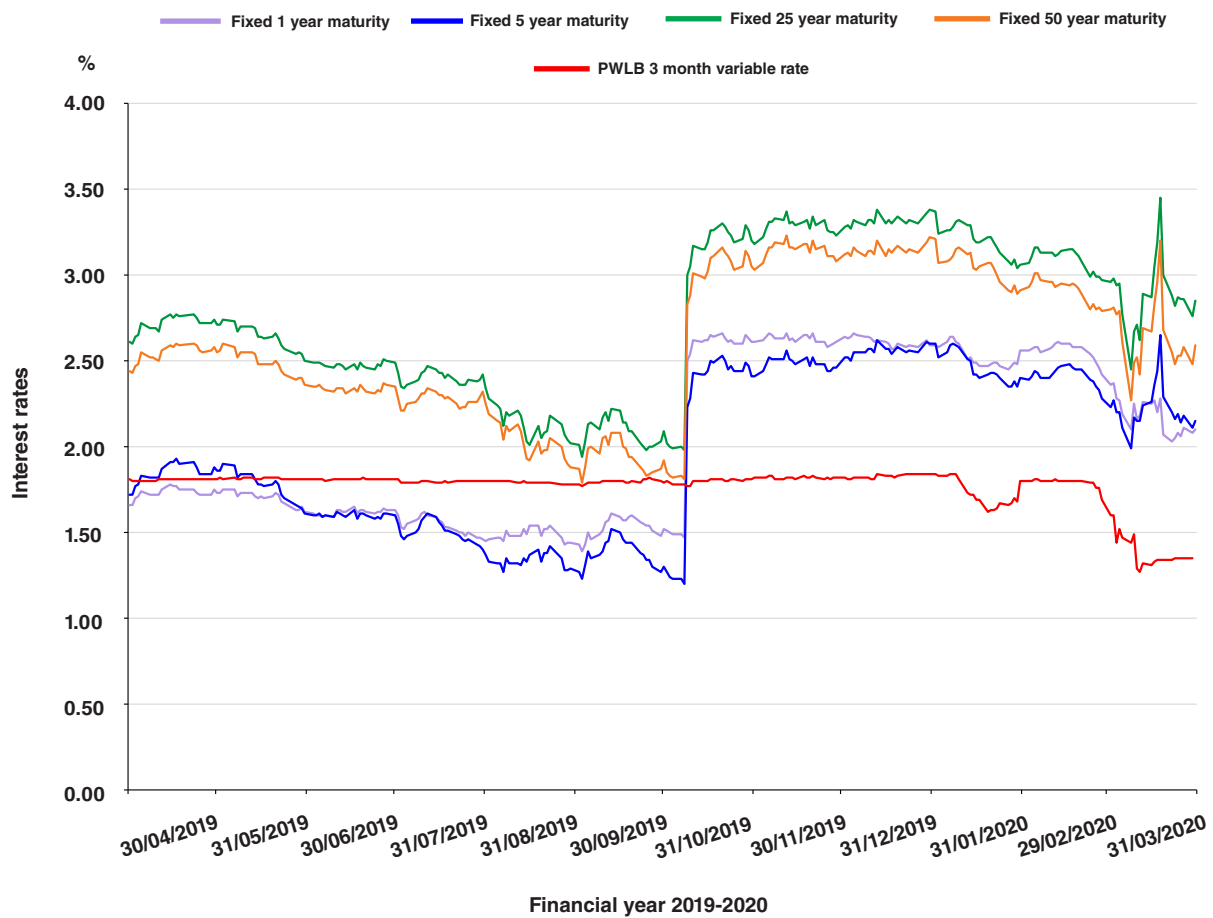
**Certainty Rate:** From 1 November 2012, HM Government reduced by 0.2% the rates on loans from the PWLB to local authorities who provided certain information on their plans for long-term borrowing and associated capital spending. HM Treasury produced a list of Qualifying Local Authorities, which was published on the PWLB's website.

**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.

**Local Infrastructure Rate:** In April 2018, HM Treasury published the arrangements for access to the Local Infrastructure Rate, which allows local authorities to borrow at a rate of 0.6% above respective gilt yields to support certain qualifying infrastructure projects. The government made available up to £1 billion of lending at this rate to English authorities over two bidding rounds during 2018-2019 and a further £1 billion in a single bidding round in 2020. Corresponding shares were made available to local authorities in Scotland and Wales.

At Spring Budget 2020, the Government announced a new, discounted rate of PWLB lending to support social housing in England, Scotland and Wales. The new Housing Revenue Account (HRA) rate is available for loans arranged on or after 12 March 2020 for any local authority with an HRA for loans that will finance expenditure within that account. The value of this discount is 1% below the rate at which the local authority usually borrows from the PWLB.

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



\* The interest rates shown relate to standard rate loans. Certainty, Project, Local Infrastructure and HRA rates are 0.2%, 0.4%, 1.4% and 1.2% 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.

**Sir Robert Stheeman**

Accounting Officer

9 June 2020

# 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 Accounting Officer; the composition, responsibilities and actions of the Managing Board and Audit Committee and how they have supported the Accounting Officer 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 Accounting Officer'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. Prior to the abolition of the Public Works Loan Commissioners on 25 February 2020, the PWLB had an unpaid Chairman and Commissioners as referenced on page 10. With effect from 25 February 2020, the statutory function of the Public Works Loan Commissioners was transferred to HM Treasury, with the Accounting Officer responsibility for the operation of PWLB, including the production of the Annual Report and Accounts, delegated to the Chief Executive of the DMO.

### Name of PWLB Accounting Officer and DMO Managing Board

The members of the DMO's Managing Board are considered to be the directors of the PWLB. The authority and responsibilities of the Managing Board are set out in the governance statement on page 28 to 37.

- **Sir Robert Stheeman**  
PWLB Accounting Officer (from 25 February 2020) and Chief Executive of the DMO
- **Jo Whelan**  
Deputy Chief Executive and Co-Head of Policy and Markets of the DMO
- **Jim Juffs**  
Chief Operating Officer of the DMO
- **Jessica Pulay**  
Co-Head of Policy and Markets of the DMO
- **Tom Josephs**  
Non-executive HM Treasury representative
- **Paul Fisher**  
Non-executive director
- **Paul Richards**  
Non-executive director

The remuneration of the DMO's Managing Board members is set out in the DMO Annual Report and Accounts.

This section has been audited.

### Directors' conflicts of interest

In 2019-2020, 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 2019-2020.

## Statement of Accounting Officer's responsibilities

Under Section 3(6) of the National Loans Act 1968 HM Treasury has directed the DMO 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 PWLB and its income and expenditure, statement of financial position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer 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 relevant 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;
- prepare the accounts on a going concern basis; and
- confirm that the annual report and accounts as a whole are fair, balanced and understandable, and take personal responsibility for the annual report and accounts and the judgements required for determining they are fair, balanced and understandable.

HM Treasury has appointed the Chief Executive of the DMO as the Accounting Officer of the PWLB.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the PWLB's assets are set out in *Managing Public Money* published by HM Treasury.

### Disclosure to auditors

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

The Comptroller and Auditor General charges no audit fee for undertaking this statutory audit.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the PWLB's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.



# Governance statement

## Scope of responsibility

A statutory responsibility of HM Treasury is to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. HM Treasury has delegated to the Accounting Officer of the DMO responsibility for authorising loans and collecting due payments. The day-to-day operations of the PWLB lending facility have been fully integrated within the operations of the DMO. The DMO provides reports to HM Treasury of lending activity on a daily basis. These reports, as well as the Annual Report and Accounts, are the primary mechanisms through which HM Treasury is kept informed of the PWLB lending facility's operations. Credit risk is the risk that a counterparty will fail to discharge a contractual obligation, resulting in financial loss to the PWLB lending facility. Any such loss would be borne by the National Loans Fund. A fuller description of the roles and responsibilities of HM Treasury can be found in the overview to this Report and Accounts.

As Accounting Officer of the DMO, I am responsible for ensuring appropriate advice is given to HM Treasury 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 lending facility is managed within the control framework of the DMO. As the Accounting Officer of the DMO, I am responsible for the wider control framework within which the PWLB lending facility 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.

Prior to 25 February 2020, PWLB loans were provided by the Public Works Loan Commissioners. Following a government consultation in 2016 the Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020 abolished the Commissioners and transferred their statutory powers to HM Treasury.

The PWLB lending facility is subject 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.

No part of the PWLB lending facility is conducted 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 DMO Accounting Officer was supported during 2019-2020 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  
Co-Head of Policy and Markets;
- Richard Hughes (until 30 April 2019)  
Non-executive HM Treasury representative;
- Tom Josephs (from 2 September 2019)  
Non-executive HM Treasury representative;
- Brian Duffin (until 31 December 2019)  
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;
- 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;
- Paul Richards (from 13 May 2019)

Non-executive director - During a 29 year career at Bank of America Merrill Lynch, Paul was MD of business in fixed income trading, Debt Capital Markets and Corporate Banking across Europe, the Americas and Asia Pacific. Following his retirement from banking, he spent 18 months as a senior consultant to the FCA. He is currently Chairman of Insignis, a FinTech company he launched in 2015.

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 Accounting Officer on any key decisions affecting the PWLB.

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

The Board last undertook a formal self-evaluation of its performance led by a non-executive director 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. Between formal reviews the Board considers its effectiveness on an ongoing basis. The Terms of Reference underwent a full review by the Board in 2020.

### 2019-2020 Managing Board activities

Board meetings were held regularly throughout 2019-2020. 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 new governance structure that replaced the PWLB on 25th February whilst continuing existing lending or loan repayment arrangements under the new PWLB lending facility.

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

	Possible	Actual		
Sir Robert Steheman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	8		
Richard Hughes	1	0	<b>Audit Committee</b>	
Tom Josephs	5	5	Possible	Actual
Brain Duffin	6	6	3	3
Paul Fisher	8	8	4	4
Paul Richards	7	7	3	3
Caroline Mawhood	n/a	n/a	2	2
Rodney Norman	n/a	n/a	2	2

### Audit Committee

The Accounting Officer was supported during 2019-2020 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 2019-2020 were:

- Paul Fisher (Chairman from 1 January 2020);
- Brian Duffin (Chairman and Audit Committee member until 31 December 2019);
- Paul Richards (from 13 May 2019);
- Caroline Mawhood (until 30 June 2019) - 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 a trustee of the Wimbledon Guild charity;
- Rodney Norman (from 1 July 2019) - Rodney Norman was Finance Director of NS&I until 2018. Prior to that he was the Treasury Accountant at HM Treasury. This was preceded by a career in the City where he qualified as a Chartered Accountant with PWC and was Finance Director of the Banking Division of Close Brothers. He is currently a non-executive director of the Pension Protection Fund, a non-executive member of the Audit and Risk Committee of the Office of Rail and Road and is a senior advisor to the Bank of England.

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 Head of Finance, and the National Audit Office.

One of the Audit Committee's objectives is to give advice to the Accounting Officer 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:

- Trading Systems Replacement Project;
- DMO Accommodation and Data Centres review;
- Reform to the governance of the PWLB;
- Cyber Security;
- Disclosure of Market Sensitive Information;
- Data Governance, Protection and Reporting;
- Processes and Controls to Mitigate Internal and External Fraud;
- Follow up on Management Actions arising from previous Internal Audit Reports;
- Security Clearance Requirements and Adherence;
- Governance and Remit over Contractors;
- Health and Safety;
- Anti-Money Laundering Arrangements;
- Reporting Requirements to the Information Commissioner's Office (ICO);
- Risk Management Framework;
- International Financial Reporting Standards (IFRS) 9, 15 and 16.

The Audit Committee covers a regular programme of agenda items, together with other current topics, and met four times during the year. The Accounting Officer 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 implement a trading systems replacement for the DMO which included the processing of PWLB loans.

The Business Delivery Committee met regularly (typically weekly) throughout 2019-2020.

#### ■ Risk Committees

The Accounting Officer 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 Accounting Officer 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, data protection awareness, cyber security and business continuity planning. The ORC met six times during 2019-2020.

### 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 process and control changes as a result of the DMO's trading system replacement, including access control of permissions for the PWLB lending facility.

#### 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 presented to the Audit Committee at the start of each year and approved by the Audit Committee

at the start of each quarter. All audits make a series of findings relating to control weaknesses. Progress against agreed management 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. The National Audit Office report, 'Local authority investment in commercial property', dated February 2020, examined the risks to the financial sustainability of local authorities from investment in commercial property, often using funds from the PWLB.

#### 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 2019-2020, this included policies relating to anti-fraud, telephony and voice recording, remote access, clear desk, health & safety and spreadsheet controls.

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 2019-2020 no concerns were raised by staff under the DMO's whistleblowing policy.



## Key developments

### ■ UK leaving the EU

During the year the DMO has continued to work with HM Treasury and other stakeholders to identify, assess and raise awareness of potential indirect impacts on PWLB activities resulting from delays to the United Kingdom’s expected exit from the European Union and taken mitigating actions where possible.

### ■ Trading Systems Replacement Project

The Trading Systems Replacement Project has been a significant multi-year project for the DMO which aims to update its IT systems for deal input, settlement, risk management and accounting, as well as to simplify the current transaction processing architecture. During 2019-2020 the focus of the implementation stage of the project has been on the design, build and testing of the new systems and processes. The project has been overseen through an established

governance framework in order to maintain the strength and resilience of all operational processes and to make improvements where appropriate. Following the successful implementation, the Controls Group have been tracking the resolution of areas that were subject to workarounds, as well as the benefits realisation of streamlined processes. Automated processes will continue to be monitored and system performance has also been a key oversight control.

### ■ COVID-19

The DMO has been actively reviewing and strengthening its contingency arrangements in order to minimise the impact of the COVID-19 outbreak on its core activities. A robust assurance framework has been implemented to ensure the maintenance of control standards for critical operations in an environment where the majority of staff are working remotely.

## Risk profile

The Accounting Officer 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
-----------------------------------	---------------------------

### IT systems and infrastructure

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.

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 progressed initiatives to further strengthen the resilience and security of its IT network. The trading systems replacement went live in August 2019 in which operational efficiencies and improved resilience were achieved. The Public Service Network (PSN) accreditation was reconfirmed as a result of an IT healthcheck.

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. 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.

Principal risks and uncertainties	Mitigation and management
<p><b>IT and data security</b></p> <p>Through its activities, the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff. The DMO seeks to ensure the highest standards of data protection and information management. The DMO could be the subject 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. IT and data security risks continue to be a specific area of focus in 2019-2020 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes.</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 continued the embedding of the General Data Protection Regulation (GDPR) which came into force in May 2018. This included additional training and awareness for all staff and reviewing existing controls for data protection.</p>
<p><b>Reliance on third parties</b></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>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 and reliance on sub-contractors. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed Service Level Agreements where appropriate. The procurement manager and the vendor management group have been working to embed consistent standards of supplier management across account managers by improving visibility of key contracts, sharing best practice to ensure relationships start on a firm footing.</p> <p>The supplier of the new trading system will become a key long-term partner. During the year more focus has been given to monitoring compliance with current policies and procedures.</p>

Principal risks and uncertainties	Mitigation and management
-----------------------------------	---------------------------

**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 worked closely with the Controls Group to ensure the integrity of loan data in preparation for the migration to the new trading system.

The main focus of improvements to transaction processing has been the trading system implementation which covers the full trade life-cycle. The implementation of the Trading Systems Replacement project generally went smoothly although some transitional issues were encountered and resolved. In the light of this, the DMO will continue to enhance its control framework for transaction processing as necessary.

**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.

The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and

The DMO’s Training and Development policy is

Principal risks and uncertainties	Mitigation and management
<p>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>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 lending facility's aims and objectives has been in place throughout 2019-2020. 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 Accounting Officer, 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 2019-2020, 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 lending facility's system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

**Sir Robert Stheeman**

Accounting Officer

9 June 2020

# 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's borrowers paid a fee for each new loan issued to them. These fees were paid to the DMO and accounted for within the DMO's overall budget, therefore forming 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 function, known as the PWLB lending facility (or the “PWLB”) for the year ended 31 March 2020 under the National Loans Act 1968. The financial statements comprise: the statements of comprehensive income, financial position, 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 PWLB’s affairs as at 31 March 2020 and of the 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 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 PWLB 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.

## Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the PWLB’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the PWLB have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the PWLB’s ability to continue to adopt the going concern basis.

## Responsibilities of the Accounting Officer

As explained more fully in the Statement of Accounting Officer’s responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## 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 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 PWLB's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.

- conclude on the appropriateness of the PWLB'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 PWLB's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the PWLB to cease to continue as a going concern.

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 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.

### Other information

The Accounting Officer is 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 1968;
- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and 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 return; 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.

**Gareth Davies**  
**Comptroller and Auditor General**

**12 June 2020**

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

# Accounts of the PWLB

United Kingdom  
Debt Management  
Office



United Kingdom  
Debt Management  
Office

## Statement of comprehensive income

For the year ended 31 March 2020

	Note	2020 £m	2019 £m
Interest income	2, 3	3,045	2,900
<b>Total income</b>		<b>3,045</b>	<b>2,900</b>
Interest payable to National Loans Fund		(3,045)	(2,900)
<b>Surplus for the year</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 2020

	Note	2020 £m	2019 £m
<b>Assets</b>			
Cash and balances at bank		308	47
Loans advanced	4	86,258	78,290
<b>Total assets</b>		<b>86,566</b>	<b>78,337</b>
<b>Liabilities</b>			
Amounts owed to National Loans Fund	7	86,566	78,337
<b>Total liabilities</b>		<b>86,566</b>	<b>78,337</b>

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

**Sir Robert Stheeman**

Accounting Officer

9 June 2020

## Statement of cash flows

For the year ended 31 March 2020

	Note	2020 £m	2019 £m
<b>Net cash used in operating activities</b>	<b>8</b>	<b>(4,923)</b>	<b>(4,558)</b>
<b>Financing activities</b>			
Interest paid to National Loans Fund		(3,072)	(2,857)
Increase in loan principal outstanding to National Loans Fund		8,256	7,419
<b>Net cash from financing activities</b>		<b>5,184</b>	<b>4,562</b>
<b>Increase in cash</b>		<b>261</b>	<b>4</b>
<b>Cash at the beginning of the year</b>		<b>47</b>	<b>43</b>
<b>Cash at the end of the year</b>		<b>308</b>	<b>47</b>

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

# Notes to the accounts for the year ended 31 March 2020

## 1 Accounting policies

### (i) Basis of preparation

The accounts have been prepared in accordance with an accounts direction given by HM Treasury and in accordance with applicable International Financial Reporting Standards (IFRS) and relevant requirements of the Government Financial Reporting Manual (FReM) in so far as they are appropriate to the PWLB. The accounts have been prepared under the historical cost convention and on a going concern basis in line with the requirements of the FReM. The PWLB has remained a going concern despite the abolition of the Public Works Loan Commissioners on 25 February 2020 and the transfer of their powers to HM Treasury, as the function of the PWLB has continued to operate throughout.

In particular, the following standards have been applied:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- 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 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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 'Definition

of Material (Amendments to IAS 1 and IAS 8)'. Application is required for reporting periods beginning on or after 1 January 2020. The PWLB expects to apply these revisions to IAS 1 in 2020-2021. The application of these revisions, which relate to a revised definition of 'material', are not expected to materially alter the presentation of the financial statements of the PWLB.

- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2022. The PWLB expects to apply these revisions to IAS 1 in 2022-2023. The application of these revisions, which affect only the presentation of liabilities in the statement of financial position and relate to a clarification of the classification of current and non-current liabilities, are not expected to materially alter the presentation of the financial statements of the PWLB.
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which has been revised as part of the IASB's 'Definition of Material (Amendments to IAS 1 and IAS 8)'. Application is required for reporting periods beginning on or after 1 January 2020. The PWLB expects to apply these revisions to IAS 8 in 2020-2021. The application of these revisions, which relate to a revised definition of 'material', are not expected to materially alter the presentation of the financial statements of the PWLB.
- IFRS 7 – Financial Instruments: Disclosures, which has been revised as part of the IASB's 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)'. Application is required for reporting periods beginning on or after 1 January 2020. The PWLB expects to apply these revisions

to IFRS 7 in 2020-2021. The application of these revisions, which deal with issues affecting financial reporting for hedge accounting are not expected to materially alter the presentation of the financial statements of the PWLB.

- IFRS 9 – Financial Instruments, which has been revised as part of the IASB’s ‘Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)’. Application is required for reporting periods beginning on or after 1 January 2020. The PWLB expects to apply these revisions to IFRS 9 in 2020-2021. The application of these revisions, which deal with issues affecting financial reporting for hedge accounting are not expected to materially alter the presentation of the financial statements of the PWLB.

## **(ii) Financial assets and income recognition**

The PWLB’s loans advanced are financial assets held by the PWLB in order to collect contractual cash flows of principal and interest on specified dates. These loans advanced are therefore treated as financial assets measured at amortised cost.

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

All loans advanced are recognised initially at fair value, normally the amount advanced to the borrower. Loans advanced 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 2020.

## **(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

	2020 £m	2019 £m
Contractual interest income for fixed rate loans	3,040	2,895
Contractual interest income for variable rate loans	5	5
Premiums received	-	-
	<b>3,045</b>	<b>2,900</b>

## 3 Interest income by country

	2020 England £m	2020 Wales £m	2020 Scotland £m	2020 Total £m
Fixed rate loans	2,420	197	423	3,040
Variable rate loans	5	-	-	5
	<b>2,425</b>	<b>197</b>	<b>423</b>	<b>3,045</b>

	2019 England £m	2019 Wales £m	2019 Scotland £m	2019 Total £m
Fixed rate loans	2,284	192	419	2,895
Variable rate loans	5	-	-	5
	<b>2,289</b>	<b>192</b>	<b>419</b>	<b>2,900</b>

## 4 Loans advanced

	2020 £m	2019 £m
Fixed rate loan principal	85,284	76,949
Variable rate loan principal	410	572
<b>Loan principal outstanding</b>	<b>85,694</b>	<b>77,521</b>
Accrued income on fixed rate loans	564	768
Accrued income on variable rate loans	-	1
<b>Accrued income</b>	<b>564</b>	<b>769</b>
<b>Value of loans outstanding</b>	<b>86,258</b>	<b>78,290</b>



## 5 Loan principal

### 5a Loan principal outstanding - analysis by fixed and variable rate loans (and comparison with carrying value and fair value) and weighted average interest rate

	2020 Loan Principal	2020 Carrying Value	2020 Fair Value	2020 Weighted average interest rate*
	£m	£m	£m	%
Fixed rate loans	85,284	85,848	140,161	3.64
Variable rate loans	410	410	411	0.92
	<b>85,694</b>	<b>86,258</b>	<b>140,572</b>	<b>3.62</b>

	2019 Loan Principal	2019 Carrying Value	2019 Fair Value	2019 Weighted average interest rate*
	£m	£m	£m	%
Fixed rate loans	76,949	77,718	113,766	3.89
Variable rate loans	572	572	572	0.95
	<b>77,521</b>	<b>78,290</b>	<b>114,338</b>	<b>3.86</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 2020.

The weighted average period to maturity of fixed rate loans at 31 March 2020 was 24.4 years (31 March 2019: 24.2 years).

At 31 March 2020, £58 million of loans (31 March 2019: £410 million) had been confirmed, but not yet advanced.

At 31 March 2020, there were no loans which borrowers had confirmed their intention to repay early (31 March 2019: 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>2020 Principal outstanding by period till maturity  £m</b>	<b>2020 Principal outstanding by period of interest rate fix*  £m</b>	<b>2019 Principal outstanding by period till maturity  £m</b>	<b>2019 Principal outstanding by period of interest rate fix*  £m</b>
Up to 1 month / repayable on demand	228	369	367	502
More than 1 month but not more than 3 months	399	399	275	393
More than 3 months but not more than 1 year	2,062	2,128	1,550	1,702
More than 1 year but not more than 5 years	9,658	9,451	8,772	8,367
More than 5 years but not more than 10 years	11,505	11,505	10,547	10,547
More than 10 years but not more than 20 years	17,278	17,278	15,976	15,976
More than 20 years but not more than 30 years	9,338	9,338	8,995	8,995
More than 30 years but not more than 40 years	20,585	20,585	18,797	18,797
More than 40 years	14,641	14,641	12,242	12,242
	<b>85,694</b>	<b>85,694</b>	<b>77,521</b>	<b>77,521</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>2020 Principal outstanding £m</b>	<b>2019 Principal outstanding £m</b>
England	70,312	63,386
Wales	4,696	4,414
Scotland	10,686	9,721
	<b>85,694</b>	<b>77,521</b>

## 6 New loans advanced, loans maturing and early redemption of loan principal

	2020 £m	2019 £m
New loans advanced	10,422	9,131
Loans maturing	(2,228)	(1,709)
Loans redeemed early	(21)	(3)
<b>Net increase in loan principal</b>	<b>8,173</b>	<b>7,419</b>

## 7 Amounts owed to National Loans Fund

	2020 £m	2019 £m
Loan principal outstanding to borrowers	85,694	77,521
Accrued income on loans to borrowers	564	769
	<b>86,258</b>	<b>78,290</b>
Loan repayments not yet surrendered to National Loans Fund	308	47
	<b>86,566</b>	<b>78,337</b>

## 8 Reconciliation of operating income to net cash used in operating activities

	Note	2020 £m	2019 £m
Operating income	2	3,045	2,900
Increase in loan principal outstanding to customers	6	(8,173)	(7,419)
Decrease/(Increase) in accrued income	4	205	(39)
<b>Net cash used in operating activities</b>		<b>(4,923)</b>	<b>(4,558)</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>2020</b>					
Cash and balances at bank	308	-	-	-	308
Loans outstanding to borrowers	-	86,027	230	1	86,258
<b>Total</b>	<b>308</b>	<b>86,027</b>	<b>230</b>	<b>1</b>	<b>86,566</b>
Loans confirmed but not advanced	-	58	-	-	58
<b>2019</b>					
Cash and balances at bank	47	-	-	-	47
Loans outstanding to borrowers	-	78,044	245	1	78,290
<b>Total</b>	<b>47</b>	<b>78,044</b>	<b>245</b>	<b>1</b>	<b>78,337</b>
Loans confirmed but not advanced	-	410	-	-	410

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 £4 million overdue loan repayments at 31 March 2020 (31 March 2019: less than £1 million). All overdue loan repayments at 31 March 2020 have since been paid.

There were no renegotiated loans or assets considered impaired at 31 March 2020 (31 March 2019: no renegotiated loans or impaired assets).

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

As directed by the FReM, the PWLB does not assess its loans for impairments categorised as stage-1 (12 month expected credit losses) and stage-2 (lifetime expected credit losses) under IFRS 9. This is in accordance with the FReM's IFRS 9 adaptations, as recorded in its 'Interpretations and adaptations for the public sector context.'

The PWLB does not issue any financial guarantees.

#### *Risk management*

As stated on page 8, HM Treasury is legally required, before advancing a loan from the PWLB, to be satisfied that there is sufficient security for the loan's repayment.

In dealing with applications, the PWLB will ask the local authority for assurances that the authority is acting properly and according to statute. The PWLB will rely on the answers to these questions. Loans are automatically secured by statute on the revenues of the authority and the PWLB will not refuse an application if satisfied that it conforms to the policy framework governing its lending arrangements. The policy framework for local authorities is determined by the Ministry of Housing, Communities and Local Government and the devolved administrations; the PWLB may need to refer to these bodies and to HM Treasury (which is responsible for the PWLB's lending policy) to satisfy itself about the conformity of a loan application.

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

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 period ended 31 March 2020 (31 March 2019: no loans).

In accordance with the lending policy, the PWLB does not differentiate borrowers by credit rating. Where relevant, it applies any concessionary rates applicable under the lending policy.

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 lending facility of HM Treasury 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 2020 was £86,566 million.

The Accounting Officer 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.

In their roles, prior to abolition on 25 February 2020, the Secretary and 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.



# Accounts Direction





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

1. This accounts direction applies to the function of HM Treasury called the PWLB lending facility.
2. The PWLB lending facility is the function relating to “local loans” (as defined in section 3(12) of the National Loans Act 1968), as transferred to HM Treasury pursuant to Art 4 of The Public Bodies (Abolition of Public Works Loan Commissioners) Order 2020.
3. The UK Debt Management Office, on behalf of HM Treasury, will prepare the Annual Report and Accounts in respect of the PWLB lending facility for the period starting 1 April 2019 until 31 March 2020 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.
4. 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.
5. 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.
6. 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.
7. The report shall include:
  - (i) a performance report, including information on financial performance and financial position;
  - (ii) an accountability report, including a governance statement.
8. This accounts direction shall be reproduced as an appendix to the accounts.
9. This accounts direction supersedes all previous accounts directions issued by HM Treasury.

**Vicky Rock**

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HM Treasury  
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**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).**

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