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Debt Management
Office

PWLB

Annual Report and Accounts

2021-2022

PWLB Annual Report and Accounts 2021–2022

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

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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 2021-2022, the Public Works Loan Board function (PWLB) continued to provide a cost-effective lending service to local authorities, meeting their requirements in terms of the amount of financing and the timing and duration of their borrowing. The function and powers to lend are held by HM Treasury, who delegate responsibility for the operation of the reporting entity known as the PWLB lending facility to the Accounting Officer of the United Kingdom Debt Management Office (DMO).

The PWLB advanced 675 new loans with a value of £8,282 million to local authorities in the year. The majority (£6,420 million) of these loans were maturity loans. However, the PWLB also continued to offer both annuity and equal instalments of principal loans, constituting £741 million and £1,121 million respectively of loans advanced in 2021-2022; 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 16,000 loans, which had a carrying value of £91,254 million at 31 March 2022. In 2021-2022, £3,075 million of interest income was generated on PWLB loans across more than 32,000 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 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.

In August 2021, HM Treasury published updated guidance and announced changes to the terms and conditions for PWLB lending which included an increase in the turnaround time for a PWLB loan from two to five working days to give government sufficient time to review the capital plans submitted and ensure they are consistent with the PWLB's lending policy, whilst still enabling local authorities to secure quick access to finance.

In October 2021, the PWLB issued its first loan on behalf of the UK Infrastructure Bank, which was immediately novated to the UK Infrastructure Bank on the same day at the same value. The UK Infrastructure Bank partners with the private sector and local government to increase infrastructure investment, to help tackle climate change and to promote economic growth across the country. Until the UK Infrastructure Bank is established in legislation, it will not have the legal powers to lend directly to local authorities, although it is able to hold and manage loans. In the interim, loans from the UK Infrastructure Bank to local authorities will make use of the existing PWLB lending process.

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.

Sir Robert Stheeman

Accounting Officer

13 June 2022

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 2022. The accounts have been prepared by the 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 PWLB loans advanced by HM Treasury 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 2021-2022.

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 12 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 the government's main borrowing and lending account and is administered by HM Treasury.

Since 25 February 2020, HM Treasury has delegated the administration of the PWLB 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 the latter is 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.

Governance of the PWLB

Since 25 February 2020, HM Treasury has had the relevant powers (previously held by the Public Works Loan Commissioners) to issue PWLB loans to local authorities. Major local authorities have been able to borrow (mainly for capital projects) without government consent since 2004, provided they determine 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, as well as the statutory guidance documents on investments and minimum revenues provision, which are published by the Department for Levelling Up, Housing & Communities. 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, and in accordance with the lending terms and guidance of the PWLB lending facility.

HM Treasury also has relevant powers 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 Department for Levelling Up, Housing & Communities 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 & Rural Affairs. The approvals must be in place before loan applications can be made to the DMO on behalf of HM Treasury.

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 policies, terms and arrangements determined by HM Treasury.

Responsibility for local authority spending and borrowing decisions lies with the locally-elected members of each council, who are democratically accountable to their electorates. Records of PWLB loans to local authorities are available for public scrutiny via the DMO website. Major local authorities are not required to provide information to the DMO on the purpose of a loan when borrowing from the PWLB lending facility.

Statutory provisions for loans

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 does 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 HM Treasury 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. HM Treasury has subsequently enacted via statutory instrument section 112 of the Finance Act 2020, on 12 May 2022, amending the National Loans Act 1968 to increase the overall PWLB lending limit from its current level of £95bn to £115bn.

The PWLB lending facility has no funds of its own; rather it borrows from the National Loans Fund as and when it needs 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 premature repayments paid to the PWLB lending facility are paid to the National Loans Fund and any discounts payable on premature repayments 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 9.30a.m. and 12.30p.m. Determinations include a separate set of rates applying to premature 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 requires, as part of the loan application process set out in the PWLB

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, and by the Department for Levelling Up, Housing & Communities, 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 premature 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/.

In March 2020, HM Treasury published a consultation entitled Public Works Loan Board: future lending terms. The consultation aimed 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 published a response to the consultation in November 2020 which set out revised lending terms for the PWLB and guidance to support local authorities to determine if a proposed project is an appropriate use of PWLB lending. The new terms included a provision for HM Treasury to suspend the consideration of the loan application for further review if it considers that the application may fall outside HM Treasury's lending arrangements.

In August 2021 HM Treasury published updated guidance and announced changes to the terms and conditions for PWLB lending which included an increase in the turnaround time for a PWLB loan from two to five working days to give government sufficient time to review the capital plans submitted and ensure they are consistent with the PWLB's lending policy, whilst still enabling local authorities to secure quick access to finance. HM Treasury also set the minimum interest rate for PWLB loans at 0.01% and set a minimum late repayment fee of 0.1%.

Lending on behalf of the UK Infrastructure Bank

The UK Infrastructure Bank is a government-owned policy bank, providing infrastructure finance (in partnership with the private sector and local government) to increase infrastructure investment in the UK. Until the UK Infrastructure Bank is established in legislation however, it will not have the legal powers to lend directly to local authorities, although it is able to hold and manage loans. In the interim, the PWLB issues loans on behalf of the UK Infrastructure Bank. In 2021-2022, the PWLB issued two loans with a value of £117 million on behalf of the UK Infrastructure Bank. These loans were novated from the PWLB to the UK Infrastructure Bank on the same day that they were issued by the PWLB and at the same value.

These loans issued by the PWLB on behalf of the UK Infrastructure Bank had no impact on the financial statements of the PWLB. For this reason, these loans do not appear in the 'Accounts of the PWLB' section and have been excluded from the analysis of PWLB lending in the 'Performance analysis' section.

Future developments

The UK Infrastructure Bank was established in June 2021 and in its interim form it does not have the legal powers to lend directly to local authorities. Instead the UK Infrastructure Bank has made use of the existing PWLB mechanism for its lending to local authorities. The UK Infrastructure Bank Bill, laid on 11 May 2022, will finalise the set-up of the UK Infrastructure Bank and enable the establishment of its own lending mechanism, therefore removing the need to involve the PWLB.

In November 2020, HM Treasury issued guidance regarding PWLB lending, which applied to any loan arranged from 26 November 2020 onwards. The guidance stated that any investment asset bought primarily for yield which was acquired after 26 November 2020 would result in the authority not being able to access the PWLB in that financial year or being able to use the PWLB to refinance this transaction at any point in the future. On 12 May 2022, the Government announced further changes to PWLB lending guidance, to state that the PWLB will not generally advance lending where there is a more than negligible risk of non-repayment without future Government support, to clarify lending arrangements and to further manage credit risk.

Performance summary

The PWLB earned interest income in the year of £3,075 million (2020-2021: £3,079 million). This comprised £3,069 million of contractual interest income (2020-2021: £3,079 million), and £6 million of premiums received due to the premature repayment of loans (2020-2021: less than £1 million).

Year on year, the PWLB's interest income decreased by £4 million. Contractual interest income decreased by £10 million whilst premiums received increased by £6 million, year on year.

The PWLB advanced 675 new loans to borrowers with a value of £8,282 million (2020-2021: 264 loans with a value of £2,861 million).

The PWLB's borrowers prematurely repaid loans with a principal value of £366 million in 2021-2022 (2020-2021: £58 million).

At 31 March 2022, the PWLB held loan assets of £91,254 million (31 March 2021: £86,349 million), inclusive of accrued income receivable of £565 million (31 March 2021: £552 million). The PWLB also held a cash balance of £33 million (31 March 2021: £381 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 2022, the average period to maturity of fixed rate loans had increased to 25.1 years (31 March 2021: 24.2 years). Also, there was a reduction in the weighted average interest rate of the PWLB's loans outstanding at 31 March 2022 to 3.42% (31 March 2021: 3.57%).

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 (premature 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 premature repayment and the rates available for money on deposit, also influence the pattern of demand for the premature repayment of existing loans and for refinancing.

Key issues and risks

The key issues and risks facing the PWLB are considered in the governance statement on page 24 to 34.

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 2021-2022, the DMO received fees of £3.0 million from the PWLB's borrowers in respect of new loans issued (2020-2021: £1.0 million). This included fees of less than £0.1 million in relation to loans advanced on behalf of the UK Infrastructure Bank.

Figure 1: Summary of transactions and balances outstanding

	In the year 2021-2022			Balances outstanding as at 31 March 2022		
	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
Loans secured on local revenue to:						
Local authorities in England						
County Councils	571	396	405	-	10,356	-
London Borough Councils	1,051	396	427	-	12,956	-
Metropolitan District Councils	1,155	253	515	-	14,823	-
Non-Metropolitan District Councils	2,219	1,036	761	-	25,729	-
Others	1,978	904	345	-	10,953	-
	6,974	2,985	2,453	-	74,817	-
Local authorities in Scotland						
Unitary Councils	1,017	295	398	-	10,942	-
Others	-	6	12	-	181	-
	1,017	301	410	-	11,123	-
Local authorities in Wales						
Unitary Councils	269	98	190	-	118	-
Others	22	6	3	-	4,630	-
	291	104	193	-	4,748	-
Total loans on local revenues	8,282	3,390	3,056	-	90,688	-

	In the year 2021-2022			Balances outstanding as at 31 March 2022		
	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
Loans secured on property to harbour authorities						
England	-	-	-	-	-	-
Scotland	-	-	-	-	1	-
Wales	-	-	-	-	-	-
Total loans on property	-	-	-	-	1	-
Total loans on local revenues and property	8,282	3,390	3,056	-	90,689	-

* There were less than £1 million of overdue loan repayments at 31 March 2022. All overdue loan repayments at 31 March 2022 have since been paid.

The net present value of all future contractual cash flows for each loan was £101,461 million at 31 March 2022. These cash flows are discounted at the PWLB's new loan interest rates at 31 March 2022.

Performance analysis

Applications for loans

During the year, the PWLB received applications for loans resulting in 675 new loans being advanced (2020-2021: 264 loans). These new loans were provided to 229 different authorities (2020-2021: 160 authorities).

Review by type of loan and borrower

Figure 2 shows loan advances made by the PWLB in 2021-2022 by type of loan and type of borrower. The figure highlights the preference for fixed rate loans during the year, such that £7,882 million of fixed rate loans were advanced and £400 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
Local authorities in England			
County Councils	571	-	571
London Borough Councils	1,051	-	1,051
Metropolitan District Councils	1,155	-	1,155
Non-Metropolitan District Councils	2,219	-	2,219
Others	1,578	400	1,978
	6,574	400	6,974
Local authorities in Scotland			
Unitary Councils	1,017	-	1,017
Others	-	-	-
	1,017	-	1,017
Local authorities in Wales			
Unitary Councils	269	-	269
Others	22	-	22
	291	-	291
	7,882	400	8,282

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. £7,970 million of the PWLB's loan advances in 2021-2022 were made at the Certainty Rate, £281 million at the Local Infrastructure Rate, £7 million at the Capitalisation Rate and £24 million at the Standard rate. The loan principal balance outstanding to the PWLB at 31 March 2022 was £90,689 million (31 March 2021: £85,797 million).

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 £4,633 million (56%) of loan advances being for longer than 40 years. The weighted average term till maturity for loans advanced was 36.2 years in 2021-2022.

Fixed rate loans with a value of £2,746 million (2020-

2021: £790 million), or 33% of all loan advances (2020-2021: 28%), were taken for the maximum period of 50 years. £259 million of fixed rate loans were taken for the minimum period of only one year (2020-2021: £334 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 2021-2022, the PWLB advanced £7,882 million of fixed rate loans and £400 million of variable rate loans. Over the previous 9 years, the PWLB had advanced £41,230 million of fixed rate loans and £371 million of variable rate loans (1% of the total).

Figure 6 demonstrates the continuing popularity of maturity loans, which constituted £6,420 million (78%) of loans advanced in 2021-2022.

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

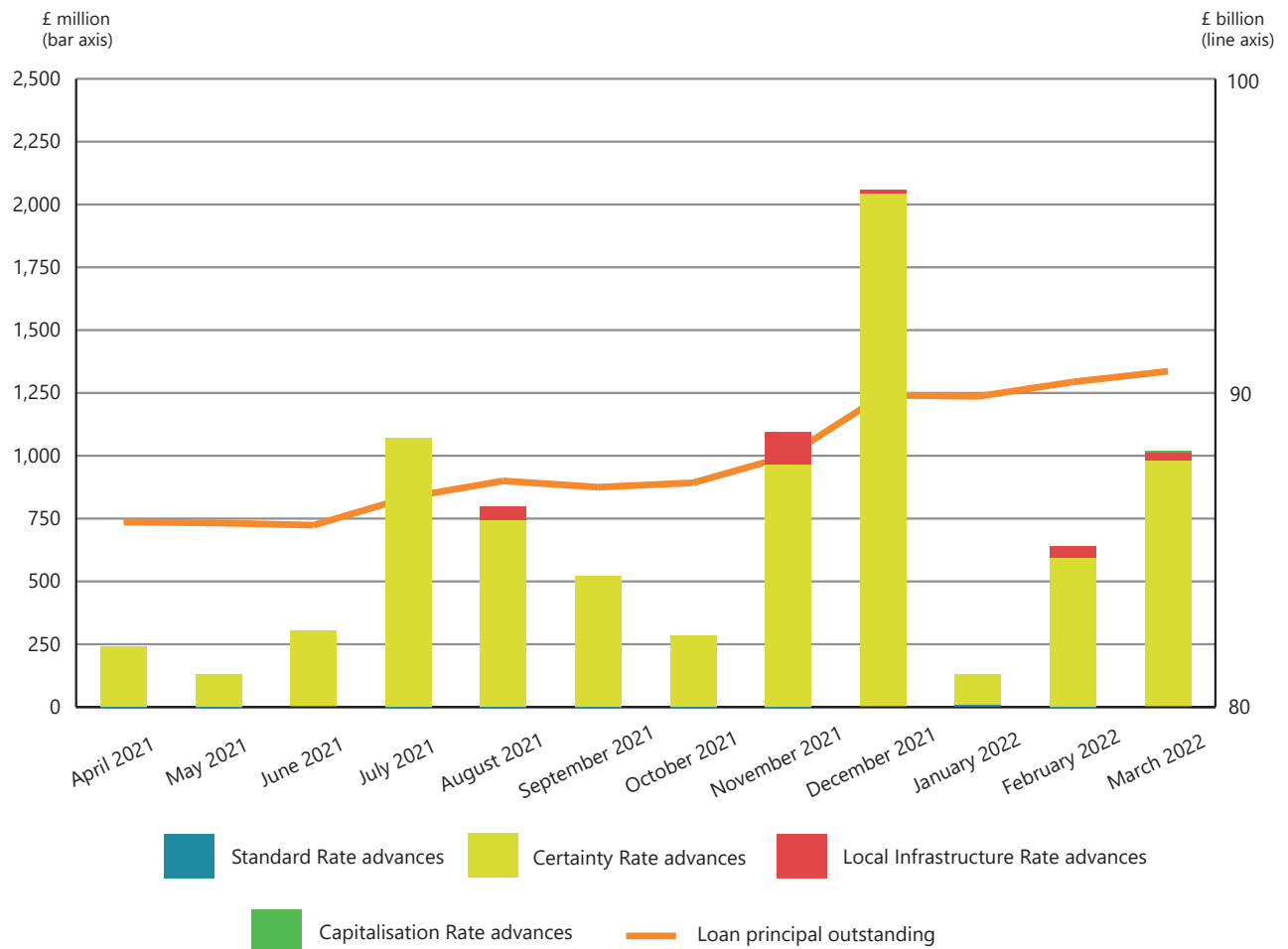


Figure 4: Term till maturity of fixed rate loans advanced in the year

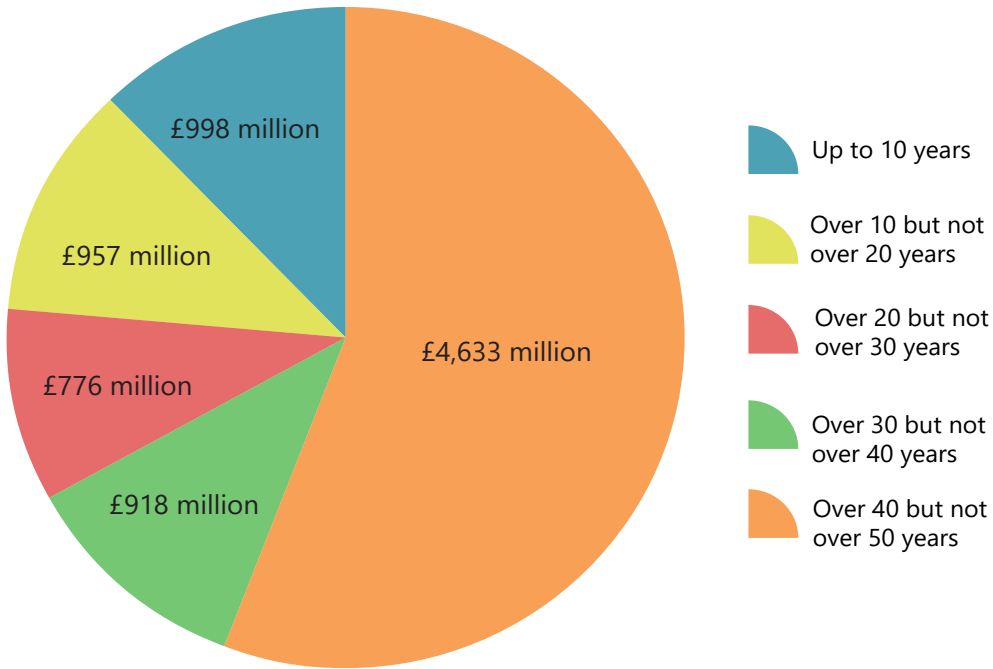


Figure 5: Loan principal outstanding and advanced, year by year

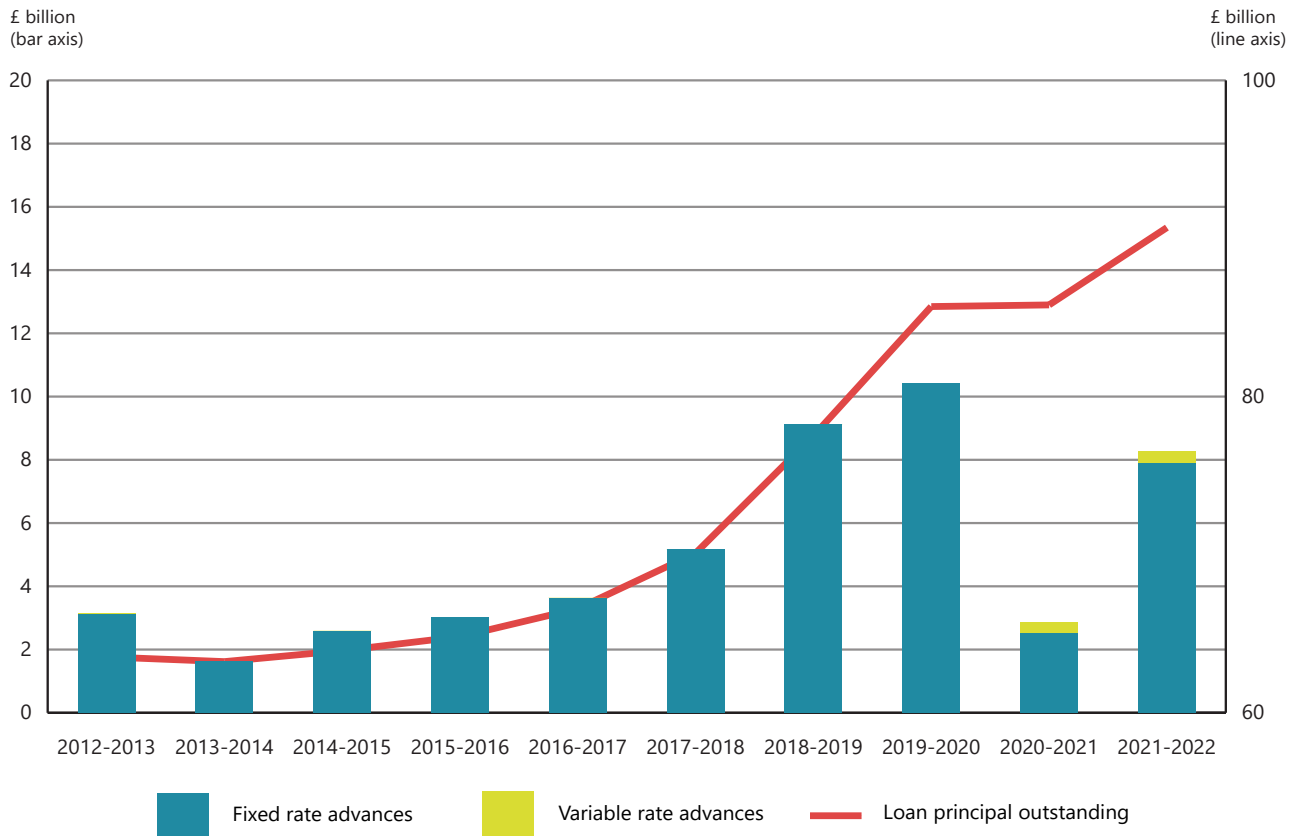


Figure 6: Loans advanced in the year, by type and by term till maturity

	Period of payment					Total £m
	Up to 10 years	Over 10 but not over 20 years	Over 20 but not over 30 years	Over 30 but not over 40 years	Over 40 but not over 50 years	
	£m	£m	£m	£m	£m	
Method of Repayment						
Fixed rate loans						
Maturity	255	386	368	823	4,188	6,020
Annuity	7	125	97	79	433	741
Equal instalments of principal	336	446	311	16	12	1,121
	598	957	776	918	4,633	7,882
Variable rate loans						
Maturity	400	-	-	-	-	400
Equal instalments of principal	-	-	-	-	-	-
	400	-	-	-	-	400
All loans						
Maturity	655	386	368	823	4,188	6,420
Annuity	7	125	97	79	433	741
Equal instalments of principal	336	446	311	16	12	1,121
	998	957	776	918	4,633	8,282

Scheduled and premature 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, repay a loan prematurely. In the case of a premature

repayment, the authority will repay the net present value of the future contractual cash flows, discounted at the PWLB's premature repayment rates, resulting in a discount or premium according to whether the premature repayment rate at the time is higher or lower than the loan rate.

Figure 7 summarises premature repayments in 2021-2022.

Figure 7: Premature repayments

	Number of loans repaid	Principal repaid £m	Premium received £m	Discount paid £m
Fixed rate loans	23	30	6	-
Variable rate loans	4	336	-	-
	27	366	6	-

Premature repayments of £366 million were made during the year (2020-2021: £58 million), compared to new loan advances of £8,282 million (2020-2021: £2,861 million).

The value of loan principal outstanding to borrowers rose by 6% year-on-year (2020-2021: less than 1% rise), to £90,689 million from £85,797 million at 31 March 2021.

Repayments in arrears

There were less than £1 million of overdue loan repayments at 31 March 2022 (31 March 2021: less than £1 million). All overdue loan repayments at 31 March 2022 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 rates set for new PWLB loans are not lower than those at which the government could notionally borrow.

A detailed explanation of the methodology is in a Technical Note which is available, along with current and past PWLB loan interest rates, on the local authority lending pages of the DMO's website, www.dmo.gov.uk.

The fixed PWLB lending rate for four different maturities as well as the three month variable lending rate for 2021-2022 are shown in Figure 8.

Concessionary rates

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

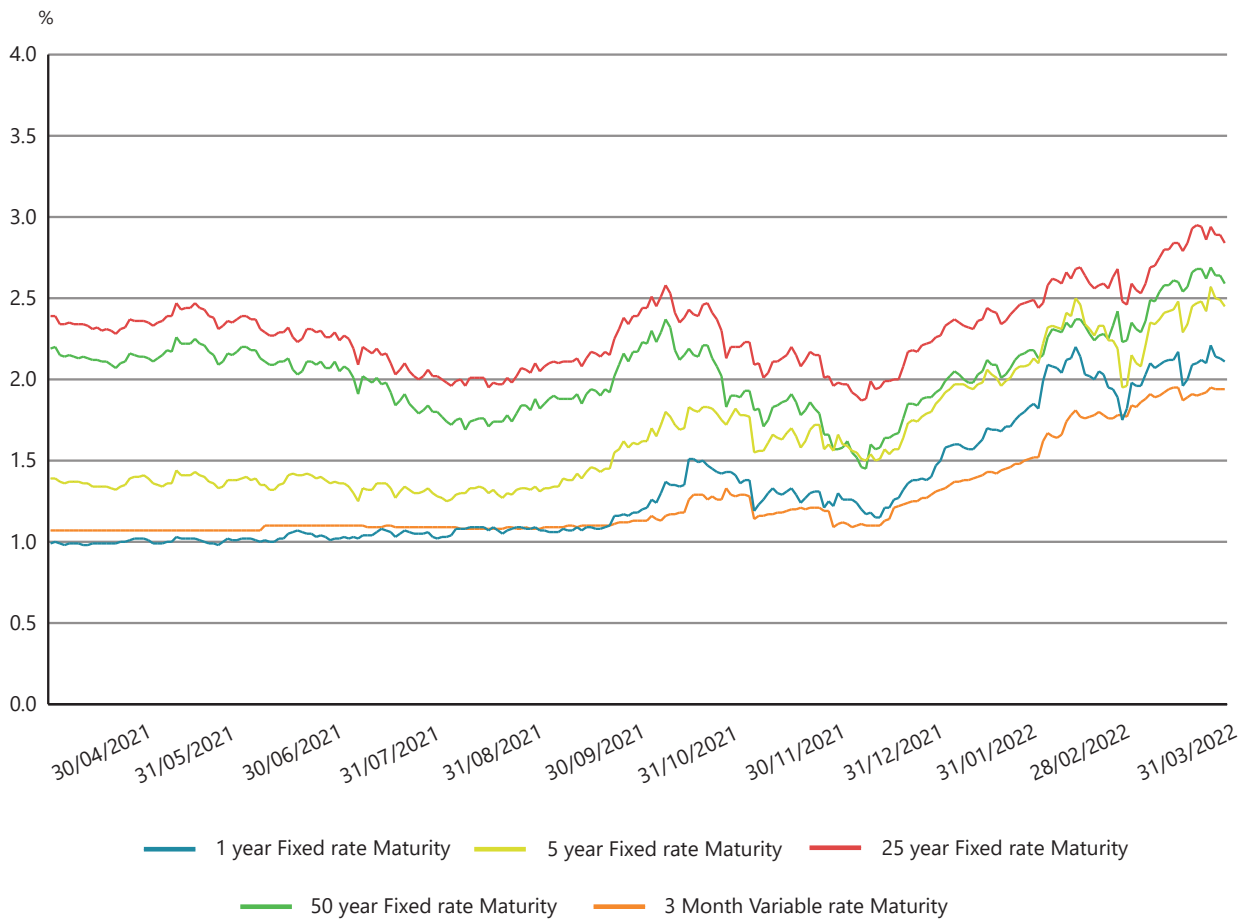
Certainty Rate: From 1 November 2012, the government reduced by 0.2% the rates on loans from the PWLB to local authorities who provided certain information on their plans for long-term borrowing and associated capital spending. Since 26 November 2020, principal local authorities have been required to submit a Certainty Rate return, including a high-level description of their capital spending and financing plans for the following three years, as a condition of accessing the PWLB. As a result, the Certainty Rate is now the default rate at which principal local authorities borrow.

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.

In 2020-2021 the Ministry of Housing, Communities & Local Government provided a small number of local authorities with capitalisation directions allowing them to borrow for revenue spending. A condition of these directions was that local authorities must borrow from the PWLB and that borrowing must be at a 1% higher rate (the 'Capitalisation Rate') than the relevant Standard or Certainty Rate.

PWLB loans made on behalf of the UK Infrastructure Bank were made at 0.6% above the respective gilt yields for those qualifying local authorities who have been approved by the UK Infrastructure Bank to borrow from PWLB on their behalf.

Figure 8: Interest rates by term till maturity and type of loan*



* The interest rates shown relate to standard rate loans. The Certainty Rate and Local Infrastructure Rate are 0.2% and 0.4% respectively lower than the standard rate, whilst the Capitalisation Rate is 1.0% higher 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.

PWLB loans issued to local authorities on behalf of the UK Infrastructure Bank are novated from the PWLB to the UK Infrastructure Bank on the same day that they were issued by the PWLB and at the same value (see page 10 for more details).

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
13 June 2022

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.

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 24 to 34.

- **Sir Robert Stheeman**
PWLB Accounting Officer 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

As announced on 4 May 2022, Dame Sue Owen was appointed on 1 June 2022 for an initial 3 year period as the first Non-executive Chair of the DMO's new Advisory Board, which replaced the Managing Board.

The remuneration of the DMO's Managing Board members is set out in the United Kingdom Debt Management Office Annual Report and Accounts.

This section has been audited.

Directors' conflicts of interest

In 2021-2022, no material conflicts of interest were declared by DMO Managing Board members.

Reporting of personal data related incidents

The PWLB had no protected personal data related incidents during 2021-2022.

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.



TELEPHONE



Trafalgar Square
Lambeth
→

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 the PWLB lending facility has not applied principle six, which covers departmental governance arrangements with ALBs.

Managing Board

In June 2021, HMT published a Tailored Review of the DMO. Tailored Reviews aim to assess, amongst other things, an organisation's form and function, its control and governance arrangements, and its relationship with its sponsoring department and other relevant organisations. Overall the review concluded that the DMO is a highly successful and effective organisation.

The review made a series of recommendations regarding the DMO's governance arrangements. In particular, the review recommended that, in terms of its status, the DMO should be regarded as a 'Model 2' Executive Agency as defined in the Cabinet Office guidance. A Model 2 Executive Agency is one which is deemed by the sponsor department to require a greater level of independence from its home department in order to carry out its functions effectively, or one that is considered by its home department to be of sufficient size and importance to require independent assurance. On this basis, the review recommended that the DMO's governance arrangements should be amended accordingly, including the creation of an Advisory Board to replace the current Managing Board and, as a consequence of this, to introduce a Non-Executive Chair (NEC) to the Board membership. The process to recruit a NEC was undertaken in the second half of the year and successfully completed as announced on 4 May 2022.

The DMO Accounting Officer was supported during 2021-2022 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;
- Tom Josephs
Non-executive HM Treasury representative;
- 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
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 lending facility.

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

The Board undertook a formal self-evaluation of

its performance led by a non-executive director in March 2021 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. For 2021-2022, in line with good practice, the Board's effectiveness was reviewed through the Tailored Review. The Terms of Reference last underwent a full review by the Board in 2020. The Terms of Reference will be supplanted by a new Terms of Reference for the Advisory Board next year.

2021-2022 Managing Board activities

Board meetings were held regularly throughout 2021-2022 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

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

	Managing Board		Audit Committee	
	Possible	Actual		
Sir Robert Steeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	8		
Tom Josephs	8	7	Possible	Actual
Paul Fisher	8	8	4	4
Paul Richards	8	8	4	4
Rodney Norman	n/a	n/a	4	4

Audit Committee

The Accounting Officer was supported during 2021-2022 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 lending facility. The members of the Audit Committee during 2021-2022 were:

- Paul Fisher (Chairman)
- Paul Richards
- Rodney Norman - 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 Army and a senior advisor to the Bank of England. Until recently he was a non-executive member of the Office of Rail and Road's Audit and Risk Committee.

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, the Head of Risk, the National Audit Office, and this year KPMG.

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

- Hybrid working arrangements;
- Governance over project management;
- Recruitment files;
- Data legislation and governance;
- DMO accommodation and data centres relocation;

- IT security;
- Telecom supplier and cloud services risks;
- Key supplier risk programme;
- Risk appetite statements;
- Principal risks and uncertainties;
- Whistleblowing policy; and
- PWLB Lending Facility Memorandum of Understanding.

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 initiatives monitored by the Business Delivery Committee during the year were the continuation of remote working arrangements due to COVID-19, and the accommodation relocation project.

The Business Delivery Committee met regularly (typically weekly) throughout 2021-2022.

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 maintaining a sound system of internal control that supports the achievement of the PWLB lending facility's policies, objectives and targets, whilst safeguarding the public funds for which he is accountable, in accordance with the responsibilities assigned to him in the Managing Public Money document.

The PWLB lending facility 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 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 reporting and robust business continuity arrangements.

The fixed interest rates offered by the PWLB lending facility 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 lending facility 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 for considering whether planned mitigating actions are 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 IT and cyber security, hybrid working arrangements, attestation of policies, business continuity planning and key supplier risks. The ORC met six times during 2021-2022.

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 actions where appropriate.

During the year the Controls Group continued to review the controls in place for increased remote working arrangements. In addition, the Controls Group covered the risk assessment and risk mitigation plan for more staff returning to the office when the impact of COVID-19 subsided. Other topics reviewed included key reconciliation documentation and digital signature solutions.

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.

■ 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.

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 2021-2022, this included policies relating to health and safety, procurement, physical security, IT acceptable use, IT security and remote working.

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, anti-fraud, 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 2021-2022 no concerns were raised by staff under the DMO's whistleblowing policy.

Key developments

■ COVID-19

The DMO has continued to actively review and refine its contingency arrangements to minimise the impact of COVID-19 as the situation developed. 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 had been working remotely.

The risk assessment and risk mitigation plans were reviewed regularly to ensure the office premises remained COVID-19 secure and compliant with guidelines. A continuation in working arrangements whereby the majority of staff were

working from home is a principal risk under the Risk Profile section.

■ Ukrainian conflict

Further to the Russian invasion of Ukraine, the DMO closely monitored actual and potential effects on activities, markets, counterparties and suppliers.

The DMO continued to work with partners across government to ensure all necessary steps were taken to maintain cyber security defences and also assurances were received from some strategic partners regarding their own arrangements, with details of the assurances put in place to mitigate against any disruption or impact. Internal assessments considered potential accounting or disclosure impacts and any effects through legal and regularity changes.

Risk profile

The Accounting Officer and DMO Board believe that the principal risks and uncertainties facing the PWLB lending facility 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 lending facility relies on a number of IT systems to conduct its operations. In particular, certain systems are central to the PWLB lending facility being able to advance loans and manage repayments in an effective and timely way.	<p>During the year the DMO has progressed initiatives to further strengthen the resilience and security of its IT network. The Public Service Network (PSN) accreditation was reconfirmed following an IT health check.</p> <p>The DMO has in place structured business continuity arrangements to ensure it is able to continue PWLB lending facility activities in the event of an internal or external incident that threatens business operations.</p> <p>Arrangements to support PWLB lending facility activities were in place throughout the year with the majority of staff working from home.</p> <p>During the year, the most significant initiative was the migration of infrastructure from a DMO hosted and managed service to a cloud service, in line with the approach taken by other government departments.</p>

Principal risks and uncertainties

Mitigation and management

In addition, there was a review of the backup strategy of DMO’s data for flexibility in a data recovery situation and improved resilience. All data centres are physically separate from the main office location which increases resilience.

IT and data security

The DMO could be the subject of an external attack on its IT systems and infrastructure. Through its activities, the DMO gathers, disseminates and maintains sensitive information, including market sensitive information. The DMO seeks to ensure the highest standards of data protection and information management.

The DMO, including the PWLB lending facility, 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 continued to be a specific area of focus in 2021-2022 and the DMO’s IT team have been enhancing the security environment and appropriateness of transaction systems and processes. The focus was in identifying and mitigating any changes to IT and data security risks as a result of continuous remote working.

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 risk.

The DMO has put in place several layers to defend against external and internal attacks. During 2021-2022 penetration testing and independent assessments of critical systems were carried out by a third party and identified the overall security posture was of a good standard. Lower rated enhancements were implemented to further improve the overall security posture of the environment.

The DMO has demonstrated compliance with Government security standards through security health-check assessments.

Reliance on third parties

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

To mitigate the risk of failure of a key third party supplier the DMO undertakes regular corporate risk assessments of each key supplier to assess a range of factors including its financial strength and operational capacity, including the reliance on sub-contractors.

Principal risks and uncertainties

Mitigation and management

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 and continually sharing best practice. The DMO has introduced enhanced monitoring for critical suppliers (i.e. strategic partners) that focuses on risk and strategic aspects. Scrutinised areas include inherent risks, scenario analysis, assessment of supply chain risks including fourth parties, monitoring and assessing residual risks, and mitigation planning. External consultancy work assisted with the approach.

During the year, monitoring continued for any potential supply chain challenges from COVID-19, including the economic impact to suppliers' business and industry.

Transaction processing

The PWLB lending facility 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 lending facility to operational risk arising from process breakdowns and human error.

A key component of PWLB lending facility'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 PWLB lending facility, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The RMU conduct regular control and compliance testing of PWLB lending facility 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 PWLB lending facility. This promotes the early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and the Board.

The continued focus has been on enhanced compliance monitoring over transaction processing, to provide assurance over controls standards during remote working.

Principal risks and uncertainties

Mitigation and management

This year saw the first upgrade of the core trading system since implementation. A robust control framework was adhered to for testing and release management. When critical third party suppliers encountered system issues, contingency processes worked successfully.

During the year controlled contingency processes were successfully invoked to overcome short-term disruption to our standard settlement processes at external organisations.

Hybrid work

In light of COVID-19, a change in working arrangements could lead to increased operational risks due to the majority of staff working from home.

During the previous year, remote working controls were put in place when hybrid working was urgently implemented in light of COVID-19. Controls continued to be adapted as new working practices evolved to ensure overall control standards were maintained. The robust control framework was reviewed by Internal Audit. The majority of meetings continued to be conducted via secure conference and video calls to ensure governance and communication was maintained. Whilst office based attendance grew, the same monitoring regime for hybrid working arrangements was maintained.

Strategic planning continued for hybrid working to develop a long-term view of working practices and associated controls.

An independent external review confirmed the existing control framework as robust.

People risk

The DMO, including the PWLB lending facility, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, ensuring delivery of 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 retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector who have historically offered higher remuneration packages that are not subject to public sector remuneration policies.

The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet its objectives.

The DMO follows the Civil Service Commission's recruitment principles and selection process to ensure vacancies are filled on merit on the basis of fair and open competition.

Principal risks and uncertainties**Mitigation and management**

The DMO also has a formal performance appraisal process and all staff are given clear and achievable objectives. 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.

Salaries are benchmarked annually to equivalent private sector pay levels in order to keep management aware of any significant disparities that are developing. During the year, particular consideration has been given to the issues faced by staff working increased hours due to market operations and additional I.T support needed as part of the continuation with remote working. Challenges with recruitment and retention were identified this year and were reviewed by the Managing Board. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one-off non-consolidated performance related awards. Any awards are assessed annually by the DMO Performance Review Team. They are determined by individual performance and criteria associated with the DMO's performance management process, which are also aligned to the policy for public sector pay.

A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives. This has been an effective conduit for wider communication and consultation with all staff.

On an annual basis all DMO staff are given the opportunity to take part in the Civil Service People survey. Any issues raised via this route, with suggested, mitigating action if required, will be considered by the DMO Accounting Officer and the Board.

The DMO is a disability confident employer.

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 2021-2022. 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 2021-2022, 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

13 June 2022



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 11. The PWLB itself recognised no fees or charges.

The above statement has been audited.

Sir Robert Stheeman

Accounting Officer

13 June 2022

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 2022 under the National Loans Act 1968.

The financial statements comprise the PWLB's:

- Statement of financial position as at 31 March 2022;
- Statement of comprehensive income and Statement of cash flows for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted International Accounting Standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the PWLB's affairs as at 31 March 2022 and its surplus for the year for the year then ended; and
- 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the PWLB in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the PWLB's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the PWLB's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the PWLB is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the annual report but does not include the financial statements nor my auditor's certificate thereafter. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the National Loans Act 1968; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the PWLB and its environment obtained in the

course of the audit, I have not identified material misstatements in the Performance and Accountability Report.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by the PWLB 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 subject to audit are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- internal controls as the Accounting Officer determines are necessary to enable the preparation of the financial statements to be free from material misstatement, whether due to fraud or error; and
- assessing the PWLB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the PWLB will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the PWLB's accounting policies;
- inquiring of management, the PWLB's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the PWLB's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the PWLB's controls relating to the PWLB's compliance with the National Loans Act 1968 and Managing Public Money;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the PWLB for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals and adjustments, complex transactions, and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the PWLB's framework of authority as well as other legal and regulatory frameworks in which the PWLB operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the PWLB. The key laws and regulations I considered in this context included the National Loans Act 1968 and Managing Public Money.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having a direct effect on the financial statements;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- other audit procedures responsive to the risk of fraud, non-compliance with laws and regulation or irregularity, including confirming that PWLB's lending cap has not been exceeded, ensuring that PWLB has not exceeded its lending limits for specific rates set out in legislation, ensuring the borrowing rate is applied and ensuring only allowed parties are granted loans.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

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

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.

Report

I have no observations to make on these financial statements.

Gareth Davies

Comptroller and Auditor General

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

14 June 2022



Accounts of the PWLB



Statement of comprehensive income

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
Interest income	2, 3	3,075	3,079
Total income		3,075	3,079
Interest payable to National Loans Fund		(3,075)	(3,079)
Surplus for the year		-	-

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

Statement of financial position

As at 31 March 2022

	Note	2022 £m	2021 £m
Assets			
Cash and balances at bank		33	381
Loans	4, 5	91,254	86,349
Total assets		91,287	86,730
Liabilities			
Amounts owed to National Loans Fund	7	91,287	86,730
Total liabilities		91,287	86,730

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

Sir Robert Stheeman

Accounting Officer

13 June 2022

Statement of cash flows

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
Net cash (used in) / from operating activities	8	(1,830)	2,988
Financing activities			
Interest paid to National Loans Fund		(3,260)	(3,076)
Increase in loan principal outstanding to National Loans Fund		4,742	161
Net cash from / (used in) financing activities		1,482	(2,915)
(Decrease) / increase in cash		(348)	73
Cash at the beginning of the year		381	308
Cash at the end of the year		33	381

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

Notes to the accounts for the year ended 31 March 2022

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 (FRM) 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 FRM.

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 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2023. The PWLB expects to apply these revisions to IAS 1 in 2023-2024. 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.

- IFRS 9 – Financial Instruments, which has been revised as part of the IASB's 'Annual improvements to IFRS Standards 2018-2020 (fees in the '10 per cent' test for derecognition of financial liabilities)'. Application is required for reporting periods beginning on or after 1 January 2022. The PWLB expects to apply these revisions to IFRS 9 in 2022-2023. The application of these revisions, which clarify which fees an entity includes when it applies the '10 per cent' test of IFRS 9 in assessing whether to derecognise a financial liability, are not expected to materially alter the presentation of the financial statements of the PWLB
- IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, which has been revised as part of the IASB's 'Onerous Contracts – Cost of Fulfilling a Contract' (Amendments to IAS 37)'. Application is required for reporting periods beginning on or after 1 January 2022. The PWLB expects to apply these revisions to IAS 37 in 2022-2023. The application of these revisions, which deal with which costs a company should include when assessing whether a contract will be loss-making 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 are financial assets held by the PWLB in order to collect contractual cash flows of principal and interest on specified dates. These loans are therefore treated as financial assets measured at amortised cost.

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

All loans are recognised initially at fair value, representing the amount advanced to the borrower.

Loans 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 premature repayments, the actual cash flows and the expected lives of the loans cannot be estimated reliably. Thus premiums and discounts on premature 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 new loan rates at 31 March 2022.

(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 prematurely repaying, 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

	2022 £m	2021 £m
Contractual interest income for fixed rate loans	3,065	3,074
Contractual interest income for variable rate loans	4	5
Premiums received	6	-
	3,075	3,079

3 Interest income by country

	2022 England £m	2022 Wales £m	2022 Scotland £m	2022 Total £m
Fixed rate loans	2,467	194	410	3,071
Variable rate loans	4	-	-	4
	2,471	194	410	3,075

	2021 England £m	2021 Wales £m	2021 Scotland £m	2021 Total £m
Fixed rate loans	2,461	195	418	3,074
Variable rate loans	5	-	-	5
	2,466	195	418	3,079

4 Loans

	2022 £m	2021 £m
Fixed rate loan principal	90,289	85,312
Variable rate loan principal	400	485
Loan principal outstanding	90,689	85,797
Accrued income on fixed rate loans	565	552
Accrued income on variable rate loans	-	-
Accrued income	565	552
Value of loans outstanding	91,254	86,349

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

	2022 Loan Principal	2022 Carrying Value	2022 Fair Value*	2022 Weighted average interest rate
	£m	£m	£m	%
Fixed rate loans	90,289	90,854	101,061	3.43
Variable rate loans	400	400	400	1.50
	90,689	91,254	101,461	3.42

	2021 Loan Principal	2021 Carrying Value	2021 Fair Value*	2021 Weighted average interest rate
	£m	£m	£m	%
Fixed rate loans	85,312	85,864	105,277	3.58
Variable rate loans	485	485	485	1.35
	85,797	86,349	105,762	3.57

* During the year the discount rate used to calculate the fair value of PWLB loans changed from the PWLB's premature repayment rates to the PWLB's new loan interest rates, as this is now considered to be more representative of the fair value. The results from the previous year have been recalculated according to this technique to ensure comparability.

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 new loan interest rates at 31 March 2022.

The weighted average period to maturity of fixed rate loans at 31 March 2022 was 25.1 years (31 March 2021 24.2 years).

At 31 March 2022, £43 million of loans (31 March 2021: £101 million) had been confirmed, but not yet advanced.

At 31 March 2022, there were no loans which borrowers had confirmed their intention to prematurely repay (31 March 2021: less than £1 million). 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

	2022 Principal outstanding by period till maturity £m	2022 Principal outstanding by period of interest rate fix* £m	2021 Principal outstanding by period till maturity £m	2021 Principal outstanding by period of interest rate fix* £m
Up to 1 month / repayable on demand	139	539	151	487
More than 1 month but not more than 3 months	352	352	523	523
More than 3 months but not more than 1 year	2,242	2,242	2,278	2,278
More than 1 year but not more than 5 years	9,646	9,646	9,312	9,312
More than 5 years but not more than 10 years	12,071	11,671	11,749	11,413
More than 10 years but not more than 20 years	17,008	17,008	16,686	16,686
More than 20 years but not more than 30 years	10,168	10,168	9,506	9,506
More than 30 years but not more than 40 years	22,836	22,836	21,645	21,645
More than 40 years	16,227	16,227	13,947	13,947
	90,689	90,689	85,797	85,797

* 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

	2022 Principal outstanding £m	2021 Principal outstanding £m
England	74,817	70,829
Wales	4,748	4,561
Scotland	11,124	10,407
	90,689	85,797

6 New loans advanced, loans maturing and premature repayments of loan principal

	2022 £m	2021 £m
New loans advanced	8,282	2,861
Loans maturing	(3,024)	(2,700)
Loans prematurely repaid	(366)	(58)
Net increase in loan principal	4,892	103

7 Amounts owed to National Loans Fund

	2022 £m	2021 £m
Loan principal outstanding to borrowers	90,689	85,797
Accrued income on loans to borrowers	565	552
	91,254	86,349
Loan repayments not yet surrendered to National Loans Fund	33	381
	91,287	86,730

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

	Note	2022 £m	2021 £m
Operating income	2	3,075	3,079
Increase in loan principal outstanding to customers	6	(4,892)	(103)
(Increase) / decrease in accrued income	4	(13)	12
Net cash (used in) / from operating activities		(1,830)	2,988

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:

At 31 March 2022	Cash held at bank £m	Major local authorities £m	Parish councils and drainage boards £m	Harbour boards £m	Total £m
Cash and balances at bank	33	-	-	-	33
Loans outstanding to borrowers	-	91,001	252	1	91,254
Total	33	91,001	252	1	91,287
Loans confirmed but not advanced	-	41	2	0	43

At 31 March 2021	Cash held at bank £m	Major local authorities £m	Parish councils and drainage boards £m	Harbour boards £m	Total £m
Cash and balances at bank	381	-	-	-	381
Loans outstanding to borrowers	-	86,106	242	1	86,349
Total	381	86,106	242	1	86,730
Loans confirmed but not advanced	-	100	1	-	101

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

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

There were less than £1 million of overdue loan repayments at 31 March 2022 (31 March 2021: less than £1 million). All overdue loan repayments at 31 March 2022 have since been paid.

There were no renegotiated loans or assets considered impaired at 31 March 2022 (31 March 2021: 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

The PWLB lending facility is only available to local authorities and other prescribed bodies.

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

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 DMO on behalf of HM Treasury will ask the local authority for assurances that the authority is acting properly and according to statute. The DMO and HM Treasury will rely on the answers to these questions. 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 the 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 and by the Department for Levelling Up, Housing & Communities, the Scottish Government or Welsh

Assembly 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.

Parish, town and community council applicants for loans need borrowing approval from the Department for Levelling Up, Housing & Communities, 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 2022 (31 March 2021: no loans).

HM Treasury continuously monitors its total PWLB 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 DMO, 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 2022 was £91,287 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 DMO.

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 Accounting Officer 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

Interim Director, Public Spending Group
 HM Treasury
 2 March 2020

This publication is available in electronic form on the DMO website www.dmo.gov.uk.

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

Alternatively, the DMO can be contacted at:

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