



United Kingdom  
Debt Management  
Office

# **LENDING ARRANGEMENTS**

FOR

# **PWLB LOANS**

PROVIDED BY

**HM TREASURY**

**Circular 161**

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## INTRODUCTION

1. This Circular supersedes Circular 160 dated 9 October 2019 and follows the statutory transfer of the lending function from Public Works Loan Commissioners to HM Treasury.
2. A separate UK Debt Management Office (DMO) Technical Note is published explaining the calculation of the rates at which PWLB loans may be advanced or early repayments accepted. The current [Note](#) is dated 12 March 2020.

## HM TREASURY'S LENDING POLICY

### POWERS TO LEND

3. HM Treasury has powers to lend to local authorities as listed in [Appendix A](#). It also has powers to lend to parish councils in England, community councils in Wales, and internal drainage boards. Not all the arrangements described in this circular apply to them, but further information is available on the DMO website and on request. HM Treasury will advise any entity unsure of its power to borrow.

### POLICY FRAMEWORK

4. Borrowing and capital spending decisions are devolved to local councils. When local authorities borrow they must have regard to the Prudential Framework as set out by Chartered Institute of Public Finance and Accountancy (CIPFA), and by the Ministry of Housing, Communities and Local Government (MHCLG), Scottish Government, or Welsh Government as applicable to ensure they are borrowing prudently. HM Treasury may refer to these bodies or seek further assurance from the local authority to satisfy itself about the conformity of a loan application.
5. 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.
6. HM Treasury expects an authority undertaking financial transactions to act prudently and legally. 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.
7. Where appropriate, HM Treasury will give advance notice of changes to its policies and practices and will endeavour to consult stakeholders beforehand. However, the final decision rests with HM Treasury.

### TYPE OF LOANS BY INTEREST RATE

8. Two types of loan according to interest rate are available from HM Treasury:
  - Fixed rate loans, on which the rate of interest is fixed for the life of the loan and interest is payable at half-yearly intervals;
  - Variable rate loans, on which the rate of interest is variable at one-, three- or six-monthly intervals. The interval is at the choice of the borrower but once chosen remains the same for the life of the loan.

## TYPE OF LOANS BY METHOD OF REPAYMENT OR AMORTISATION

9. **Fixed rate loans** are repayable by one of three methods:

- Annuity or Equal Repayments (ER): fixed half-yearly payments to include principal and interest; or
- Equal Instalments of Principal (EIP): equal half-yearly instalments of principal together with interest on the balance outstanding at the time; or
- Maturity: half-yearly payments of interest only with a single repayment of principal at the end of the term.

Repayments are at half-yearly intervals, but borrowers may request an initial broken period (see paragraph seventeen (17)).

10. **Variable rate loans** are repayable by one of two methods:

- EIP: equal monthly, quarterly or half-yearly instalments of principal together with interest on the balance outstanding at the time; or
- Maturity: monthly, quarterly or half-yearly payments of interest only with a single repayment of principal at the end of the term.

Repayments are at one, three- or six-monthly intervals from the date of advance, at the borrower's choice.

## INTEREST RATES

11. Interest rates are determined by the DMO in accordance with methodologies agreed with HM Treasury under section 5 of the National Loans Act 1968. Those for the advance and repayment of fixed rate loans are determined by reference to gilt yields, those for variable rate loans by reference to a formula set by HM Treasury and published by the DMO. There are two intra-day re-determinations of fixed rates, published at 9.30am for start of business, and at 12.30pm. The rate of interest charged on the advance of a fixed rate loan, the discount rate applied to the repayment of such a loan, and the formula for a variable rate loan, is that agreed at the time of application. Variable rates are published once at 9.30am each day. HM Treasury reserves the right to make further, unscheduled intra-daily rate changes, or alter the formula methodology or formula for variable rates, as necessary. The interest rate notice in force and historic rates are displayed on the DMO website.

### Interest rate formulae

The terms for setting interest rates are designed to protect the National Loans Fund (NLF), which is the source of PWLB funds. Rates for the advance or repayment of fixed rate loans are calculated by applying a margin to the gilt par yield curve to ensure that PWLB funds are not on-lent at rates lower than those at which the Government, via the NLF, could notionally borrow by issuing gilts and generally to ensure compliance with the policies of HM Treasury. Interest rates for variable rate loans are determined by reference to the cost of Government borrowing for the appropriate period. For further details see the separate DMO [Technical Note](#) on the interest rate methodology. HM Treasury reserves the right to alter formulae, margins or other parameters, exceptionally without notice.

## LOAN PERIODS AND REPAYMENT DATES

12. An authority may choose the final repayment date for any loan within the following limits:

		<i>Minimum period (years)</i>	<i>Maximum period (years)</i>
<i>Fixed rate loans</i>	Maturity	1	50
	Annuity or EIP	2	50
<i>Variable rate loans</i>	Maturity	1	10
	EIP	2	10

13. A loan repayable by the Annuity or the EIP method may be for any period between the minimum and maximum provided there are at least four half-yearly payments in respect of a fixed rate loan and 24 monthly, eight quarterly or four half-yearly payments in respect of a variable rate loan.

14. All loans terminate on a repayment date. A maturity loan for one year is repayable on the first anniversary of the advance. For a fixed rate maturity loan for a period of more than one year and up to the maximum, the borrower may choose the maturity date.

15. Repayments of a **fixed rate loan** are at half-yearly intervals. The first repayment date must be not more than six months from the date of advance. Interest is calculated by applying half of the annual interest rate to the balance of the loan outstanding at the start of the half-year. If the date a loan is issued does not fall on one of the half-yearly repayment dates, interest for the broken period will be calculated on an Actual/Actual basis (see [DMO's Technical Note on the Calculation of Interest Rates](#)).

16. Repayments of a **variable rate loan** are made at one-, three- or six-monthly intervals from the date of advance, according to the choice of repayment period. The rate applicable to the first repayment period of a loan is that in force on the day of the advance and, in the case of each subsequent repayment period, that in force on the first banking day of the period. Once chosen, the repayment interval applies for the life of the loan.

17. HM Treasury is prepared to advance loans with repayment dates other than a whole number of years, for example, 10½ years for fixed rate loans, 5¼ years for three-month variable rate loans, etc.

18. *Take, for example, a loan agreed on 15 January and maturing on 22 July the following year. The advance would be made on 17 January, assuming no non-banking days intervene. The scheduled payments would fall on 22 January and 22 July in the year of advance and the following year, making four payments over the life of the loan. The term of the loan would be slightly greater than 18 months, and the interest rate taken from the band 'over 1½ years but not over two years'.*

## PREMATURE REPAYMENT OF LOANS

19. HM Treasury has discretion to accept repayment of a loan, in whole or in part, in advance of the date on which the repayment is due to be made. It will not accept premature repayment of any loan which has been outstanding for less than one year or of a fixed rate loan which has less than a year to maturity.

20. The terms for accepting an early repayment are designed to protect the National Loans Fund, which is the source of PWLB funds. The total amount payable in order to redeem a debt is the present value (PV) of the remaining payments of principal and interest, calculated on normal actuarial principles using the rate defined in paragraph eleven (11). The result of the calculation is a settlement sum representing a discount or premium on the outstanding principal according to whether the discount rate is respectively higher or lower than the loan rate, plus interest accrued from the previous scheduled repayment date, if applicable.

21. When a fixed rate loan is prematurely repaid, the discount rate is the rate in the 'premature repayment' set of rates in force when the repayment is agreed for a notional loan for a period equal to the remaining term of, and repayable by the same method as, the loan being repaid prematurely. The discount rate for a variable rate loan is taken from the set of rates applying to new loans agreed before 12.30pm on 20 October 2010, with the same interest repayment period as the loan being repaid prematurely. In the case of a variable-rate loan it is not possible to repay on a rate-reset day that falls on a non-banking day.

22. When notifying the DMO, the authority should give the following information for each loan:

- the loan identification numbers
- the amount to be repaid, if less than the total principal balance outstanding
- confirmation that the loan is not in one of the categories in paragraph nineteen (19)

The DMO should be telephoned in accordance with the normal timetable for business (see paragraph thirty three (33)) to agree the terms for the repayment. The agreed terms will be deemed a binding commitment to repay on those terms and on the day specified.

23. For fixed rate loans, the DMO will inform the authority of the settlement amount at the time of agreement (settlement is on a T+2 basis). For variable rate loans the settlement amount will be agreed as soon as practicable after 9.30am on the settlement day (settlement is on a T basis). Email confirmation will be provided following the agreement. The amount will take account of the discount or premium and include, when appropriate, interest accrued from the last payment date. The authority must then arrange for the amount to be credited on the agreed settlement date to the PWLB bank account ([Appendix B](#)).

24. Where an early repayment is not received on the agreed date, interest will be charged on the overdue amount in accordance with HM Treasury terms for late payments.

## **REFINANCING OF LOANS**

25. Borrowers are permitted to replace one loan with another, subject to HM Treasury's usual terms. A borrower wanting to restructure a loan or loans may do so according to the general arrangements set out in this circular, making the early repayment and seeking a replacement advance on dates to be agreed with the DMO. Because the two legs of the transaction - the inward and outward flows – are treated as independent of each other, amounts are transmitted gross.

## **TRANSFER OF DEBT**

26. HM Treasury is prepared to consider applications for the transfer of debt between authorities, but only to accommodate statutory local government reorganisation, which may include situations where a function transfers from one authority to another. Authorities

requesting a transfer of debt should contact the DMO at least four weeks in advance of the proposed transfer date.

## **LATE PAYMENTS**

27. HM Treasury reserves the right to charge interest on late payments.

28. For loans advanced after 31 March 2004, interest will be charged on late payments at the official Bank Rate for the day from the relevant payment date to the date on which the PWLB account is credited. The same terms apply to delayed premature repayments.

29. For loans advanced on or after 1 March 1985 but before 1 April 2004, interest will be charged on late payments of fixed rate loans on the whole of the late payment (i.e. both principal and interest) from the relevant payment date at the appropriate fixed rate in force at the start of business on that date for loans repayable at maturity after one year, to the date on which the PWLB account is credited.

30. On fixed rate loans advanced before 1 March 1985, interest will be charged on the principal element of the late payment from the relevant interest payment date to the date on which the PWLB account is credited. The rate of interest will be the same as that charged on the loan.

## **PWLB LOAN APPLICATION PROCESS**

### **PRELIMINARIES**

31. New borrowers should contact the DMO in advance to arrange the necessary authorisations and bank details. Such notification should be on the authority's headed notepaper and signed by two authorised officers notified for the purpose.

32. The DMO on behalf of HM Treasury will accept loan applications only from staff duly nominated by the authority's Chief Finance Officer (or equivalent). For major authorities (i.e. borough, district, county councils and combined authorities) any change in authorisations must be submitted on the [Local Authority Authorisation Form](#) which is available from the DMO website. The DMO expect local authority authorisations to be refreshed every three years. Where nominations are to be refreshed, a new, complete list of names is required. Notification is required in good time where an authority changes its bank account for advances. For minor authorities (i.e. parish and town councils, community councils and drainage boards) each loan is treated as a separate transaction, the authorisation process is detailed in the documentation provided on [Parish Councils and Drainage Boards](#) page on the DMO website. A loan agreement cannot be completed unless the correct standing instructions are in place. Loans advanced by HM Treasury through the PWLB lending facility are subject to the Lending Arrangements as set out in the Operational Circular in force at the time of the loan application. By applying for a loan, borrowers are agreeing to these terms. It is the responsibility of borrowers to ensure the Lending Arrangements are read and understood before applying.

### **HOURS OF BUSINESS; ENQUIRIES**

33. Loan applications must be made by telephone only (020 7862 6610) on any business day. The DMO will not accept loan applications before 9.30am or after 4.15pm. Calls are

recorded for training and monitoring purposes. For enquiries, borrowers should consult the [FAQ](#) document in the first instance which is available on the DMO website. Additionally, enquiries may be made by email to [pwlb@dmo.gov.uk](mailto:pwlb@dmo.gov.uk) or the DMO phone number quoted above.

## PROCEDURE

34. Loan applications must be completed by telephone and only within the hours of business specified above. The terms of the loan and the rate of interest on a fixed rate loan – or the formula for a variable rate loan – will be agreed at the time and, subject to confirmation of eligibility for any concessionary rate against the published list, the advance made two working days later. Advance of a loan may be expected provided the application falls within HM Treasury's lending arrangements. An application will be deemed as authorising the DMO to transmit the amount advanced less the appropriate fee. HM Treasury will not normally allow a loan application to be withdrawn.

35. When a borrower seeks a loan, its authorised dealer will be asked to state their full name and the name of the authority and then answer the following qualifying questions:

- Is this application within the relevant legislation and your Authority's borrowing powers?
- By when does the Director of Finance expect the loan to be applied to expenditure? (The answer should be expressed in terms of the number of months from the point of application. The response to this question should be agreed in advance with the responsible finance officer)

36. The authorised dealer will also be asked to provide the following details for the loan application:

- Amount required
- Type of loan: i.e. whether fixed or variable
- Repayment or amortisation method
- Date of final payment, which must coincide with a repayment date
- Applicable concessionary rate (as appropriate)
- Where not apparent from the date of final payment: preferred repayment dates, in the case of a fixed rate loan, or interest payment frequency, in the case of a variable rate loan
- Bank name, sort code and account number of the receiving bank account

37. Following the phone application, verification of the loan application is required for those authorities that do not require pre-approval before applying for a loan (i.e. major authorities). The preferred method is for an authorised dealer of the authority to send an email to [pwlb@dmo.gov.uk](mailto:pwlb@dmo.gov.uk) confirming the terms of the loan agreed above.



38. Exceptionally, staff from the DMO's offices will telephone the local authority as soon as practicable after a loan has been agreed, and in any event within 24 hours (excluding weekends and bank holidays), to verify the details.

39. Once the loan details are verified, the DMO will email the authority a letter confirming the terms of the loan application.

### **Advance of loans**

40. Monies in respect of loans that have been accepted and verified are advanced two working days after making the application by telephone. The amount of the advance, after deduction of the PWLB fee, will be transmitted to the borrower's designated bank account by automated credit transfer.

### **Fees**

41. The fees payable by local authorities in respect of advances from the PWLB facility are:

- Fixed rate loans - 35p for every £1,000 or part of £1,000
- Variable rate loans - 45p for every £1,000 or part of £1,000
- Minimum fee - £25

### **LOAN REPAYMENTS**

42. Scheduled repayments are invoiced approximately four weeks before each due date.

43. HM Treasury prefers borrowers to permit the use of direct debiting, which is a simple and cost-effective way to make loan repayments punctually. When the due date falls on a non-banking day, the repayment will be collected on the next banking day. If exceptionally a repayment cannot be processed by direct debit on the due date, the Repayment Notice will be marked to this effect and include instructions to pay by another means. Instances of such an exception would be where the amount due exceeds the maximum amount permitted by the payment authorities (currently £20 million), or where the first repayment date on a loan is too close to the advance date for a BACS payment to be processed.

44. An authority paying otherwise than by direct debit must ensure that payments are made in time to clear the PWLB bank account (see [Appendix B](#)) by the due date. When the repayment date falls on a non-banking day the payment must be credited to the PWLB account on or before the next banking day. Late repayments will be subject to a late interest charge unless otherwise agreed by HM Treasury.

### **FREEDOM OF INFORMATION**

45. HM Treasury and the DMO are subject to the Freedom of Information Act 2000, which establishes a general right of access to information held by public authorities. Further details are available from the DMO website or on request. Where HM Treasury or the DMO provides information to a third party under the terms of the Act, it may as a courtesy notify the borrower of the information provided but if so, in keeping with its obligations under Data Protection legislation, will not identify the person making the request.

## DATA PROTECTION

46. Personal data that is collected by the DMO on behalf of HM Treasury in processing and the management of loans is subject to Data Protection laws including the General Data Protection Regulation (GDPR). Further information regarding the rights of individuals under GDPR can be found on the DMO website at [www.dmo.gov.uk/terms-of-use/privacy-notice/](http://www.dmo.gov.uk/terms-of-use/privacy-notice/)

## WEBSITE

47. Information relating to PWLB lending activities is available on the DMO's website at [www.dmo.gov.uk](http://www.dmo.gov.uk). The site includes the lending arrangements (circulars); information about concessionary rates; a calculator of indicative repayment costs; Annual Reports; monthly loans reports; current and past interest rates etc. The ['What's New'](#) page provides an overview of the most recent changes.

## **APPENDIX A: LOCAL AUTHORITIES**

- The councils of all counties and districts in England
- The councils of all counties and county boroughs in Wales
- The councils of all London boroughs
- The Common Council of the City of London
- The Greater London Authority and its functional bodies
- The councils of local government areas in Scotland
- The council of the Isles of Scilly
- The Broads Authority
- National Park Authorities established under the Environment Act 1995
- A Combined Authority established under the Local Democracy, Economic Development and Construction Act 2009
- Police & Crime Commissioners
- Fire & Rescue Authorities
- Waste Disposal Authorities
- Port Health Authorities
- Regional Transport Partnerships in Scotland
- Other authorities in England, Wales or Scotland having power to levy council tax or to issue a precept or levy

**APPENDIX B: PWLB BANK ACCOUNT FOR RECEIVING PAYMENTS**

Sort Code	<b>60-70-80</b>
Account No.	<b>10013288</b>
Account Name	<b>PUBLIC WORKS LOANS</b>