



United Kingdom
Debt Management
Office

Public Works Loan Board

Annual Report and Accounts 2016-2017

**Public Works Loan Board
Report and Accounts 2016 – 2017**

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 Public Works Loan Board (PWLB), its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

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Overview

Secretary's statement

Throughout 2016-2017, the PWLB continued to provide a cost effective lending service to local authorities, meeting their requirements in terms of the amount of financing and the timing and duration of their borrowing.

The PWLB advanced 622 new loans with a value of £3,634 million to local authorities in the year. The majority (£3,001 million) of these loans were maturity loans. However, the PWLB also continued to offer both annuity and equal instalments of principal loans, constituting £364 million and £269 million respectively of advances in 2016-2017, to provide a flexible range of lending alternatives to local authorities.

As well as advancing new loans, during the year, the PWLB collected interest payments on more than fifteen thousand loans, which had a value of £67,086 million at 31 March 2017. In 2016-2017, the PWLB generated £2,837 million of interest income on its loans and collected over thirty thousand interest and loan repayments by borrowers.

The PWLB continued to offer both fixed and variable rate loans during the year, at rates calculated by the UK Debt Management Office (DMO) using the

methodology specified by HM Treasury. The PWLB also continued to offer loans at concessionary rates to those local authorities who qualified for the Certainty Rate or Project Rate as specified by HM Treasury.

Following a review of the role of the Public Works Loan Commissioners in 2014, a provision was introduced in the Infrastructure Act 2015 to abolish the PWLB and transfer its function to another entity. HM Government consulted on this proposed abolition and transfer of PWLB's function in May 2016. The results of this consultation were published in November 2016, concluding that the PWLB should be abolished and its powers transferred to HM Treasury. The reform is directed only at the governance arrangements for the function and will not (and is not intended to) alter the existing lending or loan repayment arrangements for borrowers.

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

Jason Phillips

Secretary, Public Works Loan Board

7 July 2017

Purpose and principal activities of the Public Works Loan Board

This publication presents the annual Report and Accounts of the Public Works Loan Board for the year ended 31 March 2017. The accounts have been prepared by the Public Works Loan Board (PWLB) under a direction issued by HM Treasury in accordance with Section 3 (6) of the National Loans Act 1968 (the 1968 Act). In addition, the publication meets the duty of the Public Works Loan Commissioners, under section 5 (3) of the Public Works Loans Act 1875 (the 1875 Act), to report annually to Parliament.

The Report and Accounts show amounts advanced by the PWLB and the repayments received from borrowers. The accounts do not show the resources that have been used to deliver the PWLB's objectives, which are reported in the United Kingdom Debt Management Office Report and Accounts 2016-2017.

Background to the Public Works Loan Board

The PWLB is a statutory body that originated in 1793 and became permanently established in 1817. It dates in its present form from the 1875 Act. Since 1946 it has consisted of a maximum of twelve Commissioners appointed by the Crown to hold office for four years. Nowadays these posts are held in order that the function of central government lending to local government complies with statute. In practice, the PWLB function has been administered by the DMO since July 2002 and it operates under a policy framework set by HM Treasury.

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

borrowing and lending account and is administered by HM Treasury.

The function of the Commissioners

The Commissioners have delegated to the Secretary day-to-day administrative and reporting activities connected with advancing loans and collecting due payments. The Secretary's role is analogous to being Accounting Officer of the PWLB and he attends meetings of the Commissioners, which take place annually.

Nearly all borrowers are local authorities requiring loans for capital purposes. While the PWLB is legally required before making a loan to satisfy itself that there is sufficient security for its repayment, loans to local authorities are automatically secured by statute on the revenues of the authority, which removes the need for reference to specific revenues, assets or collateral.

The management of credit risk is described in note 9 to the accounts.

Secretary and Commissioners in post

The Secretary of the PWLB throughout 2016-2017 was Jason Phillips. The Commissioners holding office during the year were as shown below.

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

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

Governance and membership of the Public Works Loan Board

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

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

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

PWLB also lends to major local authorities. Since 2004, major local authorities have been able to borrow (mainly for capital projects) without government consent, provided they can afford the borrowing costs. To this end, they are required by law to "have regard" to the Prudential Code, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The PWLB requires assurance from the authority that it is borrowing within relevant legislation and its borrowing powers.

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

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

Statutory provisions for loans

Section 3 (11) and Schedule 4 of the 1968 Act authorise the Commissioners to make loans to any local authority in Great Britain for any purpose for which the authority has power to borrow and to certain other authorities and persons for limited purposes. The Commissioners also have the powers to lend to certain harbours, but as a matter of government policy no longer do so.

The amount which the Commissioners may lend, or undertake to lend, is provided by Section 4 of the 1968 Act, which permits the Commissioners to make loans up to a limit of the aggregate of:

- any commitments of the Commissioners outstanding in respect of undertakings entered into by them to grant local loans; and
- any amount outstanding in respect of the principal of any loans.

Section 4 (1) of the 1968 Act limits the aggregate amount that may be outstanding in respect of commitments entered into by the Public Works Loan Commissioners. The Local Loans (Increase of Limit) Order 2008 increased that limit from £55 billion to £70 billion. Section 300 of the Finance Act 2014 (which requires authorisation by HM Treasury to come into force), allows a further increase of the limit up to £95 billion (principal) on the total of loans outstanding to the PWLB at any one time.

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

In accordance with Sections 3(2) and 5 of the 1968 Act, interest on loans made by the PWLB is payable at rates determined by HM Treasury. This is achieved operationally by having rates calculated by the DMO using methodologies agreed with HM Treasury. There are regular, twice-daily redeterminations of rates, published at 9.30 a.m. and 12.30 p.m. Determinations include a separate set of rates to apply to early repayments.

Two types of loan are available from the PWLB:

- Fixed rate loans, for which the maximum repayment period is 50 years and on which the rate of interest is fixed for the duration of the loan. Repayments for fixed rate loans are due at half-yearly intervals; and
- Variable rate loans, for which the maximum repayment period is 10 years, and on which the rate of interest may be varied at one, three or six month intervals. Repayments are made at intervals corresponding to that selected for the variation of the rate. Once an interval is chosen, it remains unchanged throughout the life of the loan.

Policy and lending arrangements

The PWLB currently operates within a policy framework set by HM Treasury. The PWLB is able to lend to an authority up to the available capacity in its legal borrowing limit as determined under Part 1, Chapter 1 of the Local Government Act 2003. The PWLB requires an oral statement of confirmation from the borrowing authority, as part of the loan application process, that it is complying with the PWLB's Circulars and that the application is within the relevant legislation and the authority's borrowing powers.

Borrowers can request to repay loans before their due date. Under the policy framework, PWLB accepts

early repayments, but only on terms which do not favour the borrower over the National Loans Fund. The PWLB's lending policy and operational arrangements are publicised in Circulars displayed on the website at www.pwlb.gov.uk.

Future developments

Following a review of the role of the Public Works Loan Commissioners, the Infrastructure Act 2015 introduced the relevant provision to enable the government to abolish the PWLB using the Public Bodies Act 2011. On 12 May 2016 HM Treasury published a consultation on the proposed abolition of the PWLB and the transfer of its function to another entity. The reform is directed at the governance arrangements for the function only and will not (and is not intended to) alter the existing lending or loan repayment arrangements for borrowers. HM Treasury published a government response in November 2016, which confirmed that a large majority of responses agreed with its proposal to abolish the PWLB and transfer its powers to HM Treasury. The government therefore plans to use its powers in the Public Bodies Act 2011 to lay before Parliament a draft Order to implement these changes.

At Autumn Statement 2016, the government announced that it would consult on lending local authorities up to £1 billion at discounted rates to support certain qualifying infrastructure projects. Under the government's proposal, local authorities would be able to borrow up to £1 billion from the PWLB at a new Local Infrastructure Rate, which would be 0.4% below the PWLB's standard rate. HM Treasury issued a consultation paper on this topic in December 2016, which set out details on the proposed rate and sought views on its potential impact.

Performance summary

The PWLB received interest income in the year of £2,837 million (2015-2016: £2,931 million). This comprised £2,832 million of contractual interest income (2015-2016: £2,842 million), and £5 million of premiums received due to the early redemption of loans (2015-2016: £89 million).

Year on year, the PWLB's interest income decreased by £94 million. Contractual interest income decreased by £10 million and premiums received decreased by £84 million.

The PWLB advanced 622 new loans to borrowers with a value of £3,634 million (2015-2016: 621 loans with a value of £3,021 million).

The PWLB's borrowers redeemed loans early with a principal value of £55 million in 2016-2017 (2015-2016: £282 million).

At 31 March 2017, the PWLB held loan assets of £67,086 million (31 March 2016: £65,316 million), inclusive of accrued income receivable of £494 million (31 March 2016: £498 million). The PWLB also held a cash balance of £40 million (31 March 2016: £40 million) comprising monies in transition between the National Loans Fund and the PWLB's borrowers.

Figure 1 sets out the advances made, the repayments received and the loan amounts outstanding according to types of borrower in England, Wales and Scotland. It includes the fair value of the PWLB's loan portfolio, which is equivalent to the net present value of all future contractual cash flows for each loan.

At 31 March 2017, the average period to maturity of fixed rate loans had increased to 23.0 years (31 March 2016: 22.8 years). Also, there had been a reduction in the weighted average interest rate of the PWLB's loans outstanding at the balance sheet date to 4.24% (31 March 2016: 4.36%).

The assets of the PWLB are funded by borrowing from the National Loans Fund. Therefore all the PWLB's assets are matched by a corresponding liability to the National Loans Fund.

Factors influencing financial performance

Movements in the PWLB's statement of financial position and its corresponding pattern of income are driven by the demand for new loans and the repayment (early or otherwise) of existing loans. The demand for new loans is influenced by local authorities' need for capital finance, changes in prevailing borrowing rates, borrowers' expectation of future interest rate changes and their eligibility for a concessionary rate. These factors, considered alongside any premium or discount payable for early redemption and the rates available for money on deposit, also influence the pattern of demand for early redemption of existing loans and for refinancing.

Key issues and risks

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

Fees and charges

The PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget, as agreed with HM Treasury. In 2016-2017, the DMO received fees of £1 million from the PWLB's borrowers in respect of new loans issued (2015-2016: £1 million).



Figure 1: Summary of transactions and balances outstanding

	In the year 2016-2017			Balances outstanding as at 31 March 2017		
	Advances £m	Repayments of principal £m	Repayments of interest £m	Principal due but not yet paid £m	Principal not yet due** £m	Interest due but not yet paid £m
Loans on local revenue to:						
Local authorities in England						
County Councils	357	253	433	-	9,475	-
London Borough Councils	367	148	383	-	9,310	-
Metropolitan District Councils	599	414	489	-	10,826	-
Non-Metropolitan District Councils	1,382	387	640	-	18,258	-
Parish and Town Councils	19	9	6	-	156	-
Others	63	138	248	-	5,405	-
	2,787	1,349	2,199	-	53,430	-
Local authorities in Wales						
Principal Councils	112	47	187	-	3,811	-
Community Councils	-	-	-	-	4	-
Others	2	17	5	-	90	-
	114	64	192	-	3,905	-
Local authorities in Scotland						
Principal Councils	733	430	439	-	9,150	-
Others	-	17	10	-	106	-
	733	447	449	-	9,256	-
Total loans on local revenues	3,634	1,860	2,840	-	66,591	-

	In the year 2016-2017			Balances outstanding as at 31 March 2017		
	Advances £m	Repayments of principal £m	Repayments of interest £m	Principal due but not yet paid £m	Principal not yet due** £m	Interest due but not yet paid £m
Loans on property to harbour authorities						
England	-	-	-	-	-	-
Wales	-	-	-	-	-	-
Scotland	-	-	-	-	1	-
Total loans on property	-	-	-	-	1	-
Total loans on local revenues and property	3,634	1,860	2,840	-	66,592	-
Add Totals from 1817 to 31 March 2016*	241,631	176,815	131,047			
Principal remitted or extinguished To 31 March 2016	n/a	(a) 58	n/a			
In the year 2016-2017	n/a	n/a	n/a			
Total at 31 March 2017	245,265	178,617	133,887			

* This shows the total advances, repayments of principal and repayments of interest since the PWLB was permanently established in 1817 till 31 March 2016.

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

(a) The principal remitted or extinguished up to 31 March 2016 includes £55 million extinguished on privatisation of water authorities.

The net present value of future cash flows of this portfolio of loans at 31 March 2017 was £100,153 million.

Performance analysis

Applications for loans

The PWLB agreed 391 applications for loans (2015-2016: 332 applications). 211 authorities applied for advances (2015-2016: 188 authorities), including 94 non-principal authorities (2015-2016: 88 non-principal authorities). Of the 546 principal authorities, 117 applied to the PWLB during the year (2015-2016: 100 authorities) and 123 had no debt outstanding to the PWLB as at 31 March 2017 (31 March 2016: 126 authorities).

Review by type of loan and borrower

Figure 2 shows loan advances made by the PWLB in 2016-2017 by type of loan and type of borrower. The figure highlights the strong preference for fixed rate loans during the year, such that less than £1 million of variable rate loans were advanced and £3,634 million of fixed rate loans were advanced.

Figure 2: Amounts advanced by type of loan and borrower

	Fixed rate £m	Variable rate £m	Total £m
Local authorities in England			
County Councils	357	-	357
London Borough Councils	367	-	367
Metropolitan District Councils	599	-	599
Non-Metropolitan District Councils	1,382	-	1,382
Parish and Town Councils	19	-	19
Others	63	-	63
	2,787	-	2,787
Local authorities in Wales			
Principal Councils	112	-	112
Community Councils	-	-	-
Others	2	-	2
	114	-	114
Local authorities in Scotland			
Principal Councils	733	-	733
Others	-	-	-
	733	-	733
	3,634	-	3,634



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. £3,359 million of the PWLB's advances in 2016-2017 were made at the Certainty Rate, £256 million at the Project Rate and £19 million at the Standard rate. The principal balance outstanding to the PWLB at 31 March 2017 was £66,592 million (31 March 2016: £64,818 million).

The relationship between rates of interest and the term till maturity of advances for fixed rate loans can be seen in Figure 4. The figure highlights the preference by borrowers for long-term loans, with £1,954 million (54%) of advances being for longer than 40 years.

Fixed rate loans with a value of £440 million (2015-2016: £263 million), or 12% of all advances (2015-2016: 9%), were taken for the maximum period of 50

years. £4 million of fixed rate loans were taken for the minimum period of one year (2015-2016: £3 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 2016-2017, the PWLB advanced £3,634 million of fixed rate loans and less than £1 million of variable rate loans. Over the previous 9 years, the PWLB had advanced £51,951 million of fixed rate loans and £1,120 million of variable rate loans (2% of the total).

Figure 6 shows the pattern of rates and the term till maturity of advances over the previous 10 years. The average term till maturity for advances was 34.1 years in 2016-2017.

Figure 7 demonstrates the continuing popularity of maturity loans, which constituted £3,001 million (83%) of advances in 2016-2017.

Figure 3: Principal outstanding and advanced, month by month

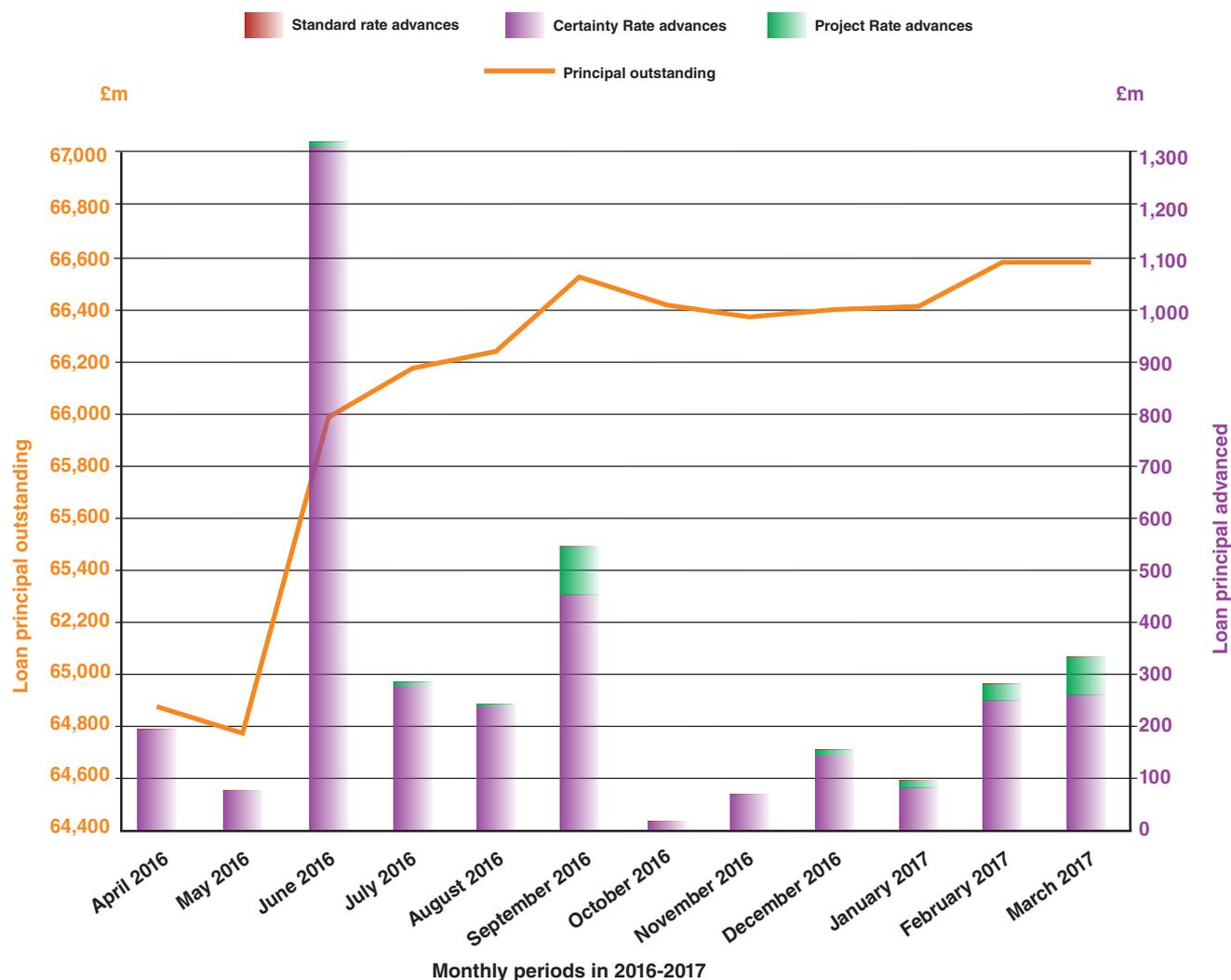


Figure 4: Term till maturity of fixed rate advances in the year and their interest rates

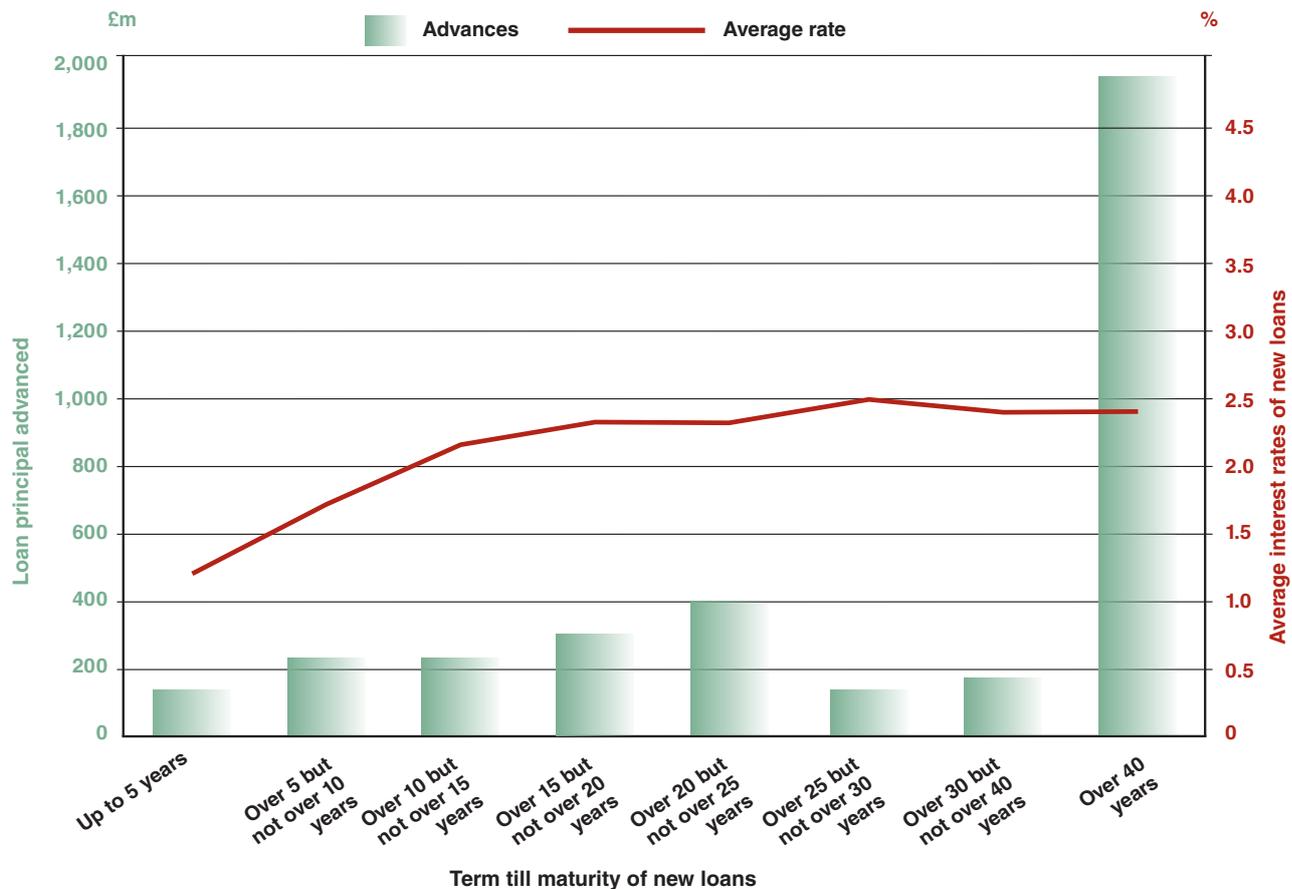


Figure 5: Principal outstanding and advanced, year by year

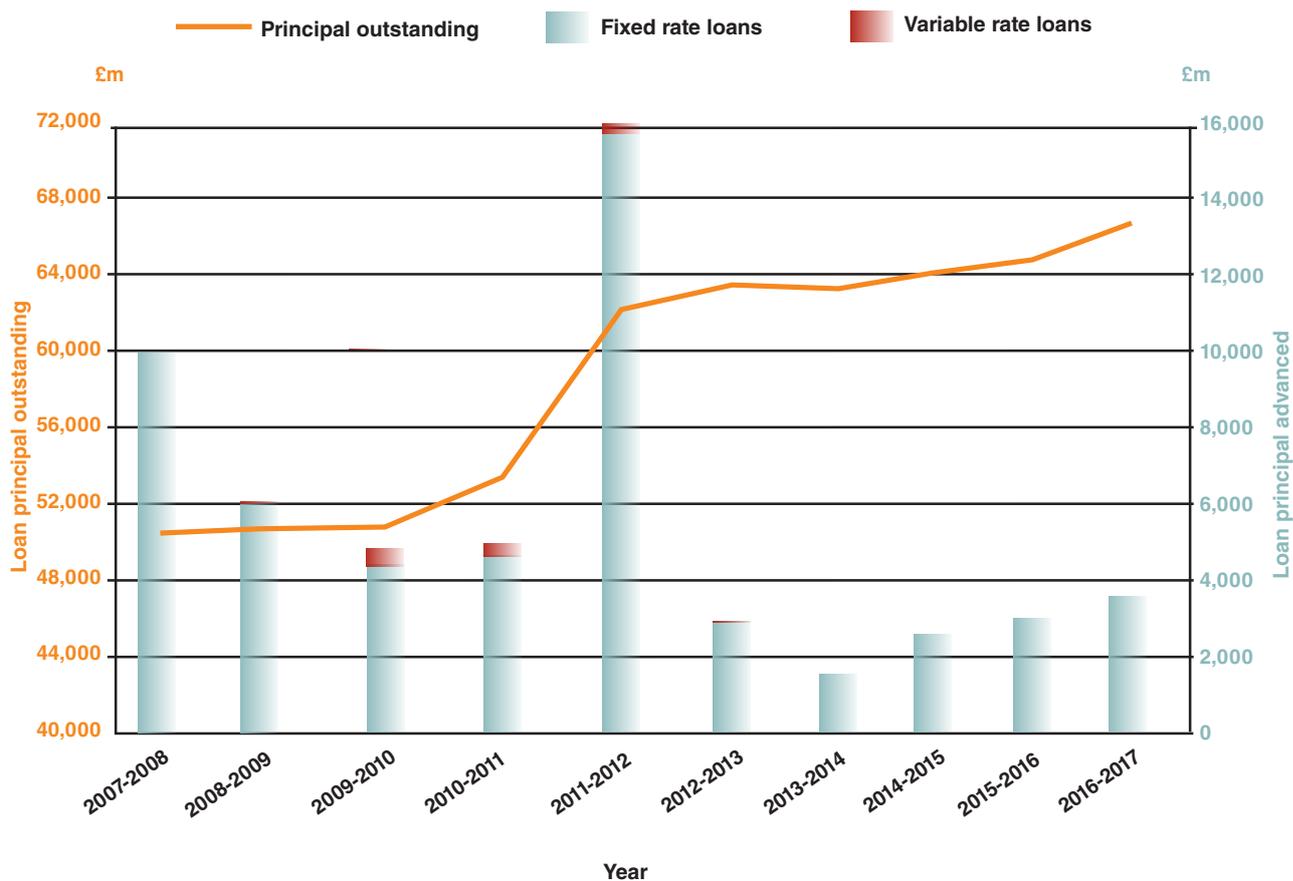


Figure 6: Average rate and term till maturity of advances, year by year

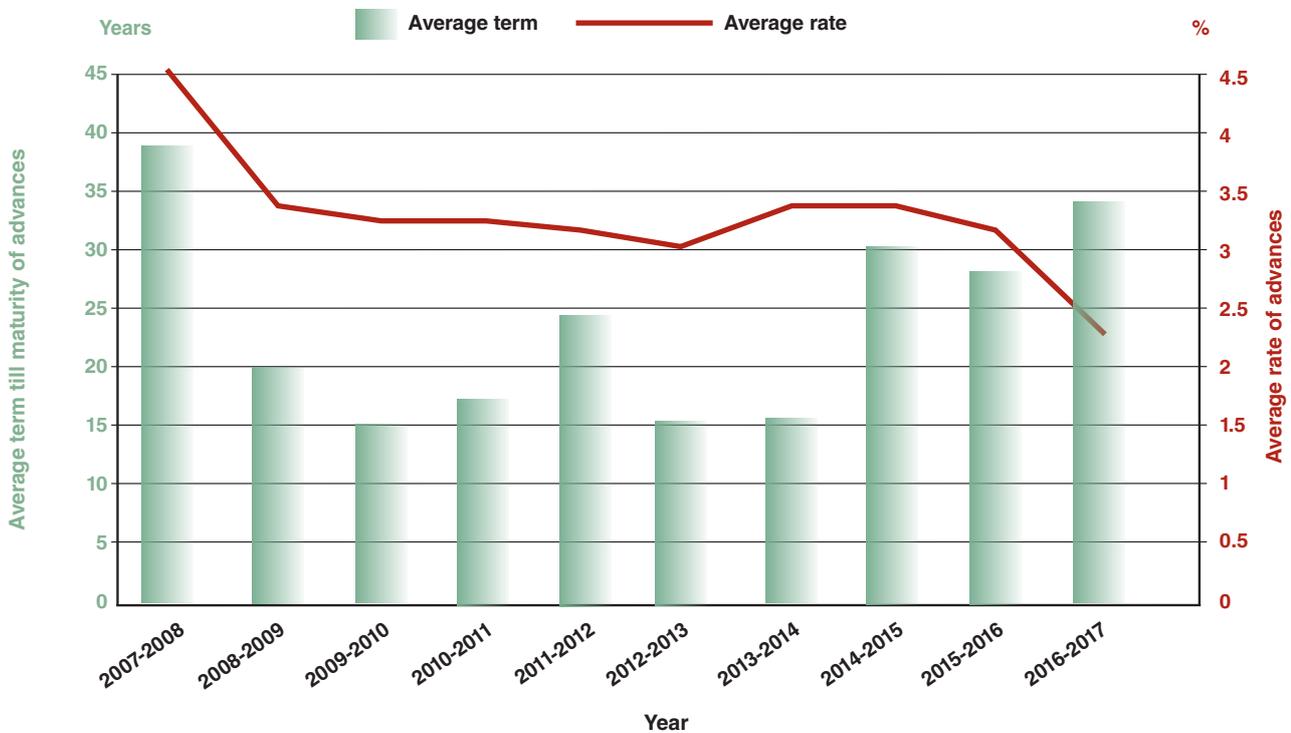


Figure 7: New loans by type and by term till maturity

Method of Repayment	Period of payment (£m)							Total
	Up to 5 years	Over 5 but not over 10 years	Over 10 but not over 15 years	Over 15 but not over 20 years	Over 20 but not over 30 years	Over 30 but not over 40 years	Over 40 years	
Fixed rate loans								
Maturity	136	214	231	202	140	172	1,906	3,001
Annuity	6	23	1	34	245	8	47	364
Equal instalments of principal	4	8	10	80	165	1	1	269
	146	245	242	316	550	181	1,954	3,634
Variable rate loans								
Maturity	-	-	-	-	-	-	-	-
Equal instalments of principal	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
All loans								
Maturity	136	214	231	202	140	172	1,906	3,001
Annuity	6	23	1	34	245	8	47	364
Equal instalments of principal	4	8	10	80	165	1	1	269
	146	245	242	316	550	181	1,954	3,634

Scheduled and early repayments

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

Authorities may, at the PWLB's discretion, redeem a

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

Figure 8 summarises early repayments in 2016-2017.

Figure 8: Early repayments

	Number of loans repaid	Principal repaid £m	Premium received £m	Discount paid £m
Fixed rate loans	30	15	5	-
Variable rate loans	3	40	-	-
	33	55	5	-

Early repayments of £55 million were made during the year (2015-2016: £282 million), compared to new advances of £3,634 million (2015-2016: £3,021 million).

The value of loan principal outstanding to borrowers rose by 2.7% year-on-year (2015-2016: 1.4% rise), to £66,592 million from £64,818 million at 31 March 2016.

Repayments in arrears

There were less than £1 million overdue loan repayments at 31 March 2017 (31 March 2016: less than £1 million). All overdue loan repayments at 31 March 2017 have since been paid.

Rates of interest

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

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

The PWLB's fixed lending rate for four different maturities and its 3 month variable lending rate for 2016-2017 are shown in Figure 9.

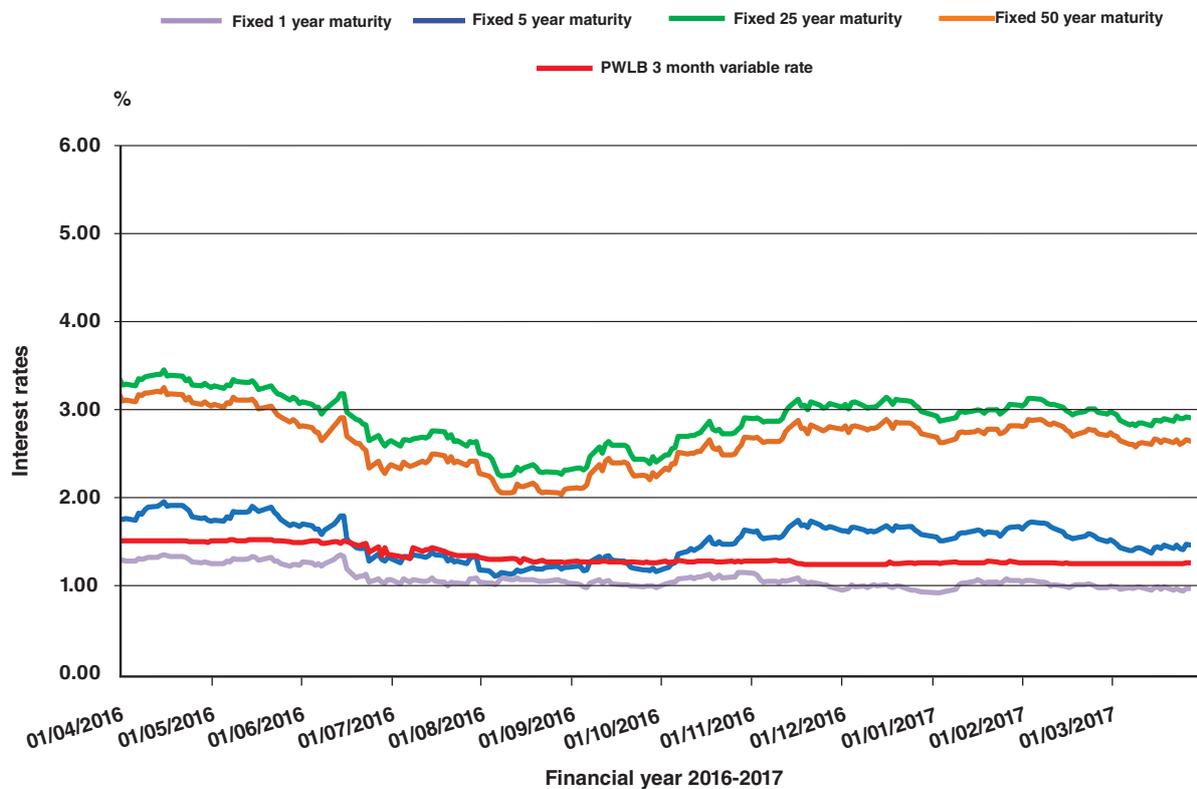
Concessionary rates

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

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

The Project Rate: From 1 November 2013, HM Government reduced by 0.4% the rates on loans from the PWLB to certain local authorities who were working with their Local Enterprise Partnership to deliver infrastructure projects. HM Treasury determined which local authorities qualified for this concessionary Project Rate. The total value of loans available at the Project Rate was £1.5 billion.

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



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

Transfers of debt

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

Service performance

The PWLB sets itself target timetables for advancing loans and arranging premature repayments. Applications are processed according to the timetables set out in the PWLB's circulars.

Jason Phillips

Secretary, Public Works Loan Board
7 July 2017

Accountability report

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

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

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Corporate governance report

Directors' report

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

Directors' conflicts of interest

In 2016-2017, no material conflicts of interest were declared by the Commissioners or by DMO Managing Board members.

Reporting of personal data related incidents

The PWLB had no protected personal data related incidents during 2016-2017.

Statement of Secretary's responsibilities

Under Section 3 (6) of the National Loans Act 1968 the Commissioners are required to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Public Works Loan Board and its income and expenditure and cash flows for the financial year.

The Commissioners have appointed the Secretary to discharge their statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary has responsibility for preparing the annual accounts.

In preparing the accounts, the Secretary is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Government Financial Reporting Manual, and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the annual report and accounts as a whole are fair, balanced and understandable, and take responsibility for the judgements required for determining they are fair, balanced and understandable;

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

As the role of the Secretary is analogous to acting as an Accounting Officer, it is considered that the responsibilities of an Accounting Officer, as set out in Managing Public Money published by HM Treasury, apply to the Secretary. These include responsibility for the propriety and regularity of the public finances for which the Secretary is answerable, for keeping proper records and for safeguarding the PWLB's assets.

Audit arrangements

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

The Secretary confirms that, as far as he is aware, there is no relevant audit information of which the PWLB's auditors are unaware, and that he has taken all the steps that he ought to have taken as Secretary in order to make himself aware of any relevant audit information and to establish that the PWLB's auditors are aware of that information.



Governance statement

Scope of responsibility

The statutory role of the Public Works Loan Board Commissioners is to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. The Commissioners have delegated to the Secretary responsibility for authorising loans and collecting due payments. The Secretary is an employee of the United Kingdom Debt Management Office (DMO) and the day-to-day operations of the PWLB have been fully integrated within the operations of the DMO. The Secretary provides reports to the Commissioners on a monthly basis and attends the annual meeting of the PWLB Commissioners. At this meeting the Secretary will typically report on a number of items including loans advanced and due payments as well as ad hoc matters. This meeting, as well as the Report and Accounts, are the primary mechanisms through which the Commissioners are kept informed of the PWLB's operations. A fuller description of the roles and responsibilities of the Commissioners can be found in the overview to this Report and Accounts.

As Secretary to the PWLB I am responsible for ensuring appropriate advice is given to the Commissioners on all matters relating to financial propriety and regularity, for keeping accounts and submitting them for external audit by the Comptroller and Auditor General and for the efficient and effective use of resources and ensuring that the business is managed within the appropriate control framework.

The PWLB is a separate statutory entity managed within the control framework of the DMO. While I am responsible for the PWLB's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which the PWLB is managed. In discharging my own control responsibilities I take assurance on the continued sound maintenance of the wider control framework from the governance statement for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

The PWLB is committed to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the following principles laid down in that Code:

- Parliamentary accountability;
- The role of the Board;
- Board composition;
- Board effectiveness; and
- Risk management.

The PWLB does not conduct any part of its business with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

Managing Board

The Secretary was supported during 2016-2017 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;
- James Richardson (resigned 31 March 2016)
Non-executive HM Treasury representative;
- Richard Hughes (appointed 1 August 2016)
Non-executive HM Treasury representative;
- Brian Larkman (resigned 31 December 2016)
Non-executive director - Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006;
- Brian Duffin
Non-executive director - Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and

Executive Director of Royal London Mutual from 2001 to 2007. He is currently chairman of the GEC 1972 Pension Plan; and

■ Paul Fisher

Non-executive director - During a 26 year career at the Bank of England, Paul Fisher served as a member of the Monetary Policy Committee from 2009 to 2014, the interim Financial Policy Committee from 2011 to 2013 and the PRA Board from 2015 to 2016. He has a number of current roles including Chair of the London Bullion Market Association.

Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

One of the roles of the Board is to advise the Secretary on any key decisions affecting the PWLB.

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

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a formal self-evaluation of its performance in June 2015 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. The Terms of Reference subsequently underwent a full review by the Board in 2017.

2016-2017 Managing Board activities

Board meetings were held regularly throughout 2016-2017. In addition to regular agenda items, including risk management, staffing and progress against the operational business plan, the Board has been kept informed of progress towards the implementation of the proposed governance structure that is expected to replace the PWLB whilst continuing existing lending or loan repayment arrangements.

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

	Possible	Actual		
Sir Robert Stheeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	7*	Audit Committee	
Richard Hughes	5	3	Possible	Actual
Brian Larkman	6	4	3	0**
Brian Duffin	8	7	4	4
Paul Fisher	3	3	1	0
Caroline Mawhood	n/a	n/a	4	4

* Absence owing to travel on UK DMO business

** Not present, comments were received

Audit Committee

The Secretary was supported during 2016-2017 by the Audit Committee on matters relating to risk, internal control and governance. The Audit Committee covers the activities of the DMO, Debt Management Account (DMA), Commissioners for the Reduction of the National Debt (CRND) and PWLB. The members of the Audit Committee during 2016-2017 were:

- Brian Larkman (resigned 31 December 2016);
- Brian Duffin (Chairman);
- Paul Fisher (appointed 1 December 2016);
- Caroline Mawhood - Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008-2009. She is a non-executive member of the Audit Committees of the Department of Energy and Climate Change (until June 2016) and the Corporation of London and one of two external members of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breast Cancer Now charity (until September 2016) and a trustee of the Wimbledon Guild charity.

Audit Committee meetings are typically attended by the DMO Accounting Officer, either or both of the Co-Heads of Policy & Markets, the Chief Operating Officer and the Head of Internal Audit. The Secretary of the PWLB also attends meetings when items relevant to the PWLB are due to be discussed by the Committee.

One of the Audit Committee's objectives is to give advice to the Secretary of the PWLB on:

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

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

- Business continuity planning;
- Operational risk management;
- IT access controls;
- Staff development and retention;
- IT resilience, recovery and security environment;
- Trading system interface control;
- Effectiveness of whistleblowing arrangements;
- Anti-money laundering arrangements.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

The Secretary has also been informed by the following operational committees throughout the period under review:

■ Business Delivery Committee

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross functional body, resolving emerging issues in a timely way, and agreeing priorities to ensure the plan stays on track.

The Business Delivery Committee met regularly (typically weekly) throughout 2016-2017.

■ Risk Committees

The Secretary receives advice from two risk

committees covering operational risk and material change programmes. More detail on the roles, responsibilities and activities of these committees can be found in the sections below.

Risk management and internal control

The Secretary is responsible for working within a sound system of internal control that supports the achievement of the PWLB's policies, objectives and targets, whilst safeguarding the public funds for which he is accountable, in accordance with the responsibilities assigned to him.

The PWLB is managed within the wider DMO system of internal control which is based upon what the DMO Accounting Officer, with the support of the Board, considers to be appropriate taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The DMO's position differs to that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result, the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

The Risk and Control Framework

The Board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This Framework helps ensure that the DMO Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The risk management framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The Framework is supported by a clear 'three lines of defence' model:

■ First line of defence:

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are encouraged to understand and own the risks that are inherent in those operations. In particular the DMO seeks to promote an environment in which staff feel comfortable to identify new aspects of risk and changes in previously identified risks, as

well as weaknesses, so that these may be assessed and appropriate mitigating actions put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and robust business continuity arrangements.

The fixed interest rates offered by the PWLB are determined by HM Treasury in accordance with section 5 of the National Loans Act 1968. In practice the rates are calculated each day using data from one of the DMO's business critical models. The DMO has put in place a robust quality assurance framework for all the models that it uses which extends to cover validation of results and any changes in approach.

■ Second line of defence:

Oversight of risk is provided by the Board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the DMO Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit risk, market risk and operational risk. It has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of the committees that are relevant to PWLB activities is described in more detail below.

Operational Risk Committee

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. The Committee also reviews and tracks the progress of actions identified by Internal Audit. The Committee's scope includes issues relating to information risk, IT security, business continuity, anti-fraud and key supplier risks.

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on transaction

processing risks and controls, IT and data security and business continuity planning. The ORC met nine times during 2016-2017.

Controls Group

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the DMO Accounting Officer, the Board and senior management on any significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Group has also advised the DMO Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has covered the DMO's core trading system, project work to strengthen changes to the control environment, enhancements to transaction processes and improvements in IT change management processes.

Risk Management Unit

The risk committees are supported by the DMO's Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the DMO Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the Board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from, and independent of, the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU via quarterly consultations with heads of business units and functional teams. Significant risk issues are assessed

for materiality and probability of occurrence. New risks, and risks to which exposure is increasing, are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

■ Third line of defence:

The DMO's Internal Audit function is the third line of defence and provides the DMO Accounting Officer with independent and objective assurance on the overall effectiveness of the system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of findings relating to control weaknesses. Remedial actions once agreed with management, are monitored for implementation. Progress against treatment actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the DMO Accounting

Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

Risk policies and procedures

The DMO's risk policies reflect the high standards and robust requirements which determine the way in which risks are managed and controlled. The DMO Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2016-2017, this included the DMO's Anti-Fraud Policy, the Data Protection Policy and Whistleblowing Policy. Staff are required to confirm that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistle blowing, fraud and anti-money laundering and information security. The DMO ensures that this exercise is undertaken on an annual basis which helps staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

Risk profile

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

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

Principal risks and uncertainties	Mitigation and management
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Transaction processing

The PWLB relies on its operational processes to successfully advance loans and manage repayments on a daily basis. Reliance on the accurate execution of processes exposes the PWLB to operational risk arising from process breakdown and human error.

able to continue market operations in the event of an internal or external incident that threatens business operations. These arrangements extend to cover the PWLB. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives, including those related to or affecting the PWLB.

To mitigate the risk of failure of a key third party, where appropriate, the DMO undertakes a corporate risk assessment of the potential supplier in order to assess financial strength and operational capacity. Additionally the DMO has dedicated relationship managers who conduct regular meetings with key suppliers and monitor performance against agreed Service Level Agreements.

A key component of the PWLB’s control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. All teams, including the PWLB, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The RMU conducts regular control and compliance testing of the PWLB’s activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.

The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover the PWLB. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board. During the year further improvements have been made in the operational control of PWLB activities including processes governing changes to counterparty data.

Principal risks and uncertainties	Mitigation and management
<p>People risk</p> <p>The DMO, including the PWLB, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives.</p> <p>The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.</p>	<p>DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.</p> <p>The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet its objectives.</p> <p>The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.</p> <p>The DMO has also put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure.</p> <p>Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. During the year, particular consideration has been given to the issues faced by staff working increased hours and weekends on the programme to strengthen IT infrastructure. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one-off performance related awards. Any awards are assessed annually by the DMO Pay Committee, are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.</p> <p>A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff.</p>

Principal risks and uncertainties	Mitigation and management
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IT and data security

Through its activities, the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff. The DMO seeks to ensure the highest standards of data protection and information management. The DMO is exposed to risk of an external attack on its IT systems and infrastructure.

On an annual basis all DMO staff are encouraged to take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the DMO Accounting Officer and Board.

The DMO was reaccredited as an Investor in People in 2014.

The DMO, including the PWLB, continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. IT and data security risks continue to be a specific area of focus in 2016-2017 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risks.

The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test. This year particular attention has been paid to the auction process and systems used to ensure the control environment remains robust.

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of the PWLB's aims and objectives has been in place throughout 2016-2017. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and executive managers within the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their

management letter and other reports.

In my role as Secretary I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

In 2016-2017, no ministerial directions were given and no material conflicts of interest have been declared by the Board or Audit Committee members in the Register of Interests.

In my opinion, the PWLB's system of internal control was effective throughout the financial year and remains so on the date I sign this statement.

Jason Phillips

Secretary, Public Works Loan Board

7 July 2017

Parliamentary accountability and audit report

Regularity of expenditure

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

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

Both the above statements have been audited.

Fees and charges

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

The above statement has been audited.

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Public Works Loan Board for the year ended 31 March 2017 under the National Loans Act 1968. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

Respective responsibilities of the Commissioners, the Secretary of the Public Works Loan Board and auditor

As explained more fully in the Statement of Secretary's Responsibilities the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. They appoint the Secretary to discharge these responsibilities on their behalf. My responsibility is to audit, certify and report on the financial statements in accordance with the National Loans Act 1968. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Public Works Loan Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Public Works Loan Board; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Performance Report and Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

In my opinion, in all material respects, the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view

of the state of the Public Works Loan Board's affairs as at 31 March 2017 and of its results for the year then ended; and

- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with the National Loans Act 1968 and HM Treasury directions issued thereunder; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General

11 July 2017

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

Accounts of the
Public Works Loan Board

United Kingdom
Debt Management
Office



United Kingdom
Debt Management
Office

Statement of comprehensive income

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Interest income	2, 3	2,837	2,931
Operating income		2,837	2,931
Interest payable to National Loans Fund		(2,837)	(2,931)
Operating surplus retained		-	-

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

Statement of financial position

As at 31 March 2017

	Note	2017 £m	2016 £m
Assets			
Cash and balances at bank		40	40
Loans and advances	4	67,086	65,316
Total assets		67,126	65,356
Liabilities			
Amounts owed to National Loans Fund	7	67,126	65,356
Total liabilities		67,126	65,356

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

Jason Phillips

Secretary, Public Works Loan Board

7 July 2017

Statement of cash flows

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Net cash from operating activities	8	1,067	2,040
Financing activities			
Interest paid to National Loans Fund		(2,840)	(2,923)
Increase in loan principal outstanding to National Loans Fund		1,773	810
Net cash used in financing activities		(1,067)	(2,113)
Decrease in cash		-	(73)

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

Notes to the accounts for the year ended 31 March 2017

1 Accounting policies

(i) Basis of preparation

The accounts have been prepared in accordance with a direction given by HM Treasury and International Financial Reporting Standards (IFRS) in so far as they are appropriate to the PWLB, under the historical cost convention. The accounts have been prepared on a going concern basis in line with the requirements of the FReM, as despite HM Government consulting on the proposed abolition of the PWLB, if the PWLB were to cease to exist, its services would continue to be provided by another entity of HM Government.

In particular, the following standards have been applied:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement

Certain IFRS have been issued or revised, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- IAS 7 Statement of Cash Flows, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 7)'. Application is required for reporting periods beginning on or after 1

January 2017. The PWLB expects to apply these revisions to IAS 7 in 2017-2018. The application of these revisions, which ensure that users can evaluate changes in financing, may result in additional disclosures regarding changes in liabilities arising from financing activities of the PWLB.

- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018. The PWLB expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and derecognition of financial instruments, is not expected to alter the reporting of financial instruments in the PWLB.

(ii) Financial assets and income recognition

The PWLB classifies its financial assets as loans and receivables under IAS 39, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The PWLB does not sell financial assets and so does not designate any loans and receivables as available-for-sale or held for trading.

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

All loans are recognised initially at fair value, normally the amount advanced to the borrower. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest rate, cash flows are

based on the contractual terms of the loan. Owing principally to the long maturities of most loans and the volatile pattern of early repayments, the actual cash flows and the expected lives of the loans cannot be estimated reliably. Thus premiums and discounts on early repayments are recognised when received and paid.

The fair value of loans outstanding, disclosed in note 5 to the accounts, is calculated as the aggregate net present value of future cash flows on each individual loan. These future cash flows are discounted at the PWLB's premature repayment rates at 31 March 2017.

(iii) Financial liabilities

All the PWLB's liabilities relate to monies drawn from the National Loans Fund for the purpose of issuing loans to the PWLB's borrowers. All principal and interest payments receivable by the PWLB, along with any premiums for early redemption, are repayable to the National Loans Fund. Therefore all the PWLB's assets are also liabilities payable to the National Loans Fund. For this reason, the PWLB's liabilities are valued in the same way as the corresponding assets.

Liabilities are recognised when cash is advanced to the PWLB from the National Loans Fund and derecognised when cash is paid back to the National Loans Fund.

(iv) Statement of changes in equity

These accounts do not present a statement of changes in equity, since all the funding of the PWLB is provided by the National Loans Fund, and matches the amount loaned by the PWLB to borrowers. The change in net funding is therefore already disclosed in the statement of financial position, which demonstrates the change in amounts owed to the National Loans Fund due to changes in the PWLB's loan portfolio.

2 Interest income

	2017 £m	2016 £m
Contractual interest income for fixed rate loans	2,828	2,837
Contractual interest income for variable rate loans	4	5
Premiums received	5	89
	2,837	2,931

3 Interest income by country

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

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

4 Loans and advances

	2017 £m	2016 £m
Fixed rate loan principal	65,976	64,143
Variable rate loan principal	616	675
Loan principal outstanding	66,592	64,818
Accrued income on fixed rate loans	494	497
Accrued income on variable rate loans	-	1
Accrued income	494	498
Value of loans outstanding	67,086	65,316

5 Loan Principal

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

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

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

* This excludes overdue payments.

The fair value is the net present value of all future contractual cash flows for each loan. These cash flows are discounted at the PWLB's premature repayment rates at 31 March 2017.

The weighted average period to maturity of fixed rate loans at 31 March 2017 was 23.0 years (31 March 2016: 22.8 years).

At 31 March 2017, £146 million of loans (31 March 2016: £14 million) had been confirmed, but not yet advanced.

At 31 March 2017, there were no loans which borrowers had confirmed their intention to repay early (31 March 2016: none). Such repayments are not reflected in the statement of financial position until the cash has been repaid by the borrower.

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

	2017 Principal outstanding by period till maturity £m	2017 Principal outstanding by period of interest rate fix* £m	2016 Principal outstanding by period till maturity £m	2016 Principal outstanding by period of interest rate fix* £m
Up to 1 month / repayable on demand	78	216	125	263
More than 1 month but not more than 3 months	253	385	302	434
More than 3 months but not more than 1 year	1,376	1,713	1,283	1,669
More than 1 year but not more than 5 years	7,597	6,990	7,054	6,625
More than 5 years but not more than 10 years	9,337	9,337	9,148	8,921
More than 10 years but not more than 20 years	15,511	15,511	15,237	15,237
More than 20 years but not more than 30 years	8,297	8,297	8,857	8,857
More than 30 years but not more than 40 years	14,821	14,821	12,965	12,965
More than 40 years	9,322	9,322	9,847	9,847
	66,592	66,592	64,818	64,818

* 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

	2017 Principal outstanding £m	2016 Principal outstanding £m
England	53,430	51,992
Wales	3,905	3,855
Scotland	9,257	8,971
	66,592	64,818

6 New issue, maturity and early redemption of loan principal

	2017 £m	2016 £m
New loans	3,634	3,021
Loans maturing	(1,805)	(1,849)
Loans redeemed early	(55)	(282)
Net increase in loan principal	1,774	890

7 Amounts owed to National Loans Fund

	2017 £m	2016 £m
Loan principal outstanding to borrowers	66,592	64,818
Accrued income on loans to borrowers	494	498
	67,086	65,316
Loan repayments not yet surrendered to National Loans Fund	40	40
	67,126	65,356

8 Reconciliation of operating income to net cash from operating activities

	Note	2017 £m	2016 £m
Operating income		2,837	2,931
Increase in loan principal outstanding to customers	6	(1,774)	(890)
Decrease/(increase) in accrued income		4	(1)
Net cash from operating activities		1,067	2,040

9 Risk management

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

Credit risk

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

Risk measurement

The credit risk exposures of the PWLB are shown below:

	Cash held at bank £m	Major local authorities £m	Parish councils and drainage boards £m	Harbour boards £m	Total £m
2017					
Cash and balances at bank	40	-	-	-	40
Loans outstanding to borrowers	-	66,840	245	1	67,086
Total	40	66,840	245	1	67,126
Loans confirmed but not advanced	-	146	-	-	146
2016					
Cash and balances at bank	40	-	-	-	40
Loans outstanding to borrowers	-	65,062	253	1	65,316
Total	40	65,062	253	1	65,356
Loans confirmed but not advanced	-	14	-	-	14

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

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

There were less than £1 million overdue loan repayments at 31 March 2017 (31 March 2016: less than £1 million). All overdue loan repayments at 31 March 2017 have since been paid.

There were no renegotiated loans or assets considered impaired at 31 March 2017 (31 March 2016: no renegotiated loans or impaired assets).

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

The risk of default is not perceived to have increased materially during the year.

The PWLB does not issue any financial guarantees.

Risk management

As stated on page 8, the PWLB Commissioners are legally required before making a loan to satisfy themselves that there is sufficient security for its repayment.

The PWLB obtains all necessary information from borrowers to gain assurance that the authority is acting appropriately and within the framework set out in the PWLB's circulars.

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

Loans to local authorities, together with related interest, are automatically secured by statute on all revenue streams of the borrower.

Parish, town and community council applicants for loans need borrowing approval from the Department for Communities and Local Government, or, in the case of Welsh councils, the Welsh Assembly Government. Drainage board applicants for loans need a loan sanction from the Department for Environment, Food and Rural Affairs.

Loans to harbour boards are secured on property

and are made only with the provision of a guarantee from the local authority. In addition, the business plan is reviewed. No new loans were made to harbour boards in the year ended 31 March 2017 (31 March 2016: no loans).

The PWLB does not differentiate borrowers by credit rating.

The PWLB continuously monitors its total lending against a limit set by statute.

Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises interest rate risk, currency risk and other price risk. The PWLB's activities do not give rise to interest rate risk for the PWLB itself, but form part of the interest rate risk profile of the National Loans Fund.

There is no exposure to currency risk or other price risk.

Liquidity risk

Liquidity risk is the risk that the PWLB will encounter difficulty in meeting obligations associated with financial liabilities.

The PWLB's activities are not considered to give rise to liquidity risk for the PWLB itself, but rather form part of the liquidity risk profile of the National Loans Fund. The PWLB's cash flow requirements are forecast and monitored daily.

10 Related party transactions

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an executive agency of HM Treasury. During the year, the PWLB had a significant number of material transactions with the National Loans Fund, a fund which is administered by HM Treasury. The National

Loans Fund lends cash to the PWLB so that it can subsequently lend the cash to its borrowers. In turn, the PWLB will return cash to the National Loans Fund as interest payments on loans are received and loans are redeemed.

The total amount owed by the PWLB to the National Loans fund at 31 March 2017 was £67,126 million.

The Secretary and other key management personnel of the PWLB had no transactions with the PWLB

during the year and were remunerated by the United Kingdom Debt Management Office.

The Commissioners of the PWLB also had no transactions with the PWLB during the year.

11 Date of authorisation for issue

The Secretary of the PWLB has authorised these accounts for issue on 11 July 2017.

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

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

Accounts Direction



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

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

Chris Wobschall

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

This publication is available in electronic form on the United Kingdom Debt Management Office (DMO) website www.dmo.gov.uk.

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

Alternatively, information can be obtained from the DMO by telephoning 0207 357 6501.

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