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## LOANS TO PARISH, TOWN AND COMMUNITY COUNCILS

### 1. Power to Lend

The Public Works Loan Board (PWLB) has the power to lend to parish and town councils in England and to community and town councils in Wales. It is for the PWLB to decide whether to make a loan in respect of an application but it will normally lend if the terms and conditions described in this document are met. The PWLB also has the power to lend to a parish meeting which has had parish council powers conferred upon it by the District Council. The arrangements set out in this document will apply to a parish meeting with parish council powers.

### 2. Purposes for which loans may be made

Loans may be made to finance capital payments for which a council has a formal borrowing approval. A council may also apply for a loan to replace short-term borrowings (including a bank overdraft) or revenue balances used temporarily for the purpose stated in the approval. Exceptionally, PWLB will consider an application to borrow for a term of less than twelve months.

### 3. Borrowing Approval

The PWLB will only lend within the conditions of borrowing approvals issued by the Department for Communities and Local Government (DCLG), or, in the case of Welsh councils, the Welsh Government. Borrowing approvals state, amongst other things, the purpose of a loan, the amount and the maximum period over which it can be taken.

The related borrowing may only be undertaken within the terms and time limit of the approval. It is not obligatory for the approval to be taken up in a single loan, and separate applications may be made in respect of a scheme where, for example, the expenditure is spread over several months, provided that the loans are covered by a valid approval.

The initial approach for a borrowing approval should be made to the local County Association of Local Councils. In the case of Welsh councils, the approach is direct to the Welsh Government.

### 4. Security for Loans

Under the provisions of the Public Works Loan Acts of 1965 and 1967, loans from PWLB are secured by an automatic charge on the revenues of the council and not on the council's property.

## 5. Applications for Loans

Applications should be made by the Responsible Finance Officer (RFO) on Form LC1, copies of which may be downloaded from PWLB's website. The completed form, together with a blank, cancelled cheque or an original bank statement bearing the details of the bank account to which the advance is to be made, should be sent to PWLB two weeks before a loan is required. In completing Form LC1 the RFO will be required to supply the following details. Non-receipt of information will cause delay.

- Borrowing Approval No.
- purpose of loan
- sum required
- type of loan required
- half-yearly interest payment days (for fixed rate loans)
- payment frequency (for variable rate loans)
- method of repayment
- period of repayment
- preferred date of advance

On receiving an application PWLB will check that it is in order and notify the RFO accordingly, normally by e-mail. The notification will invite the RFO to telephone PWLB in line with the following timetable to agree the final terms of the loan including the rate of interest and the date for the advance.

<b>RFO telephones to agree terms</b>	<b>Day of advance of loan</b>
Monday	Wednesday
Tuesday	Thursday
Wednesday	Friday
Thursday	Monday
Friday	Tuesday

Where a Bank Holiday intervenes the timetable moves back by the appropriate number of days. Thus if a Monday is a non-banking day and the advance is required to be made on the Tuesday, the agreement would need to be made the previous Thursday.

After PWLB has agreed a loan, a letter confirming its terms will be sent to the council on the day of advance. In the normal course of business the confirmation letter will be received after the loan has been advanced.

## 6. Types of Loan

There are two types of loans available from the PWLB:

- (a) Fixed rate loans, on which the rate of interest is fixed for the life of the loan;
- (b) Variable rate loans, on which the rate of interest is not fixed for the life of each loan but is variable at one, three or six monthly intervals. Once chosen, the roll-over period remains unchanged for the life of the loan.

## 7. Method of Repayment

There are two repayment methods open to Parish, Town and Community Councils:

**Annuity:** half yearly payments where each payment is of a constant amount inclusive of principal and interest (available on fixed rate loans only)

**Equal Instalments of Principal (EIP):** half yearly payments where each payment consists of a constant instalment of principal plus a diminishing amount of interest, calculated on the balance of principal then outstanding

The minimum repayment period on either method is two years

PWLB also offers Maturity loans at fixed or variable rates but only if the applicant has provided for a sinking fund to meet the repayment of the principal at the end of the term and can demonstrate it has the expertise to operate such a fund. Exceptionally, the PWLB will allow repayment of a loan by the Maturity method where the applicant expects a future receipt to repay the principal at term.

## 8. Interest Rates

When a Council agrees to a loan from the PWLB the interest rate reflects the equivalent cost of the Government's borrowing to finance the loan; rates are set by statute and not at the discretion of the PWLB. Setting lending rates with reference to the Government's borrowing rates allows borrowers to share the low rates at which the Government can borrow with a margin to cover market fluctuations during the day and for other purposes.

In the case of fixed rate loans, a precise rate of interest is prescribed. In the case of variable rate loans the rate is fixed by reference to a formula. The rate of interest charged on a fixed rate loan or the formula for a variable rate loan will be that agreed by telephone two banking days before the date of advance.

Fixed interest rates are set twice daily at 9:30 and 12:30 with a separate rate calculated in 6 monthly bands for periods up to 50 years. Once a loan has been agreed, the rate of interest is fixed for the duration of the loan. Payments are at regular half-yearly intervals (e.g. 1 April and 1 October) but the borrower may choose the half-yearly days so long as the first date is no later than six months from the date of advance. Scheduled interest payments are 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 days, the borrower pays an amount for the broken period from the date the loan is issued to the date of the first half-yearly payment.

Variable interest rates are set daily with separate rates for 1, 3 and 6 monthly roll-over periods, which are applicable to both EIP and Maturity loans. Borrowers choose the roll-over period of the loan at the time it is agreed. Interest payments are calculated by reference to the balance outstanding since the last loan payment and the number of days in the roll-over period.

Further information on interest rates, including a Technical Note on their calculation, is on the PWLB website, [www.pwlb.gov.uk](http://www.pwlb.gov.uk).

## 9. Loan Repayment Periods

A council may choose the repayment period within the following limits, subject to the maximum repayment period specified in the borrowing approval.

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

Although the borrowing approval will state the maximum period for the borrowing, a lesser period may be chosen, as generally a council should not borrow for longer than necessary.

## 10. Fees

Under the Public Works Loans (Fees) Regulations 1991, as amended, the fees payable by councils in respect of advances from PWLB 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

The minimum fee payable is £25.

## 11. Advance of Loans

A loan will be transmitted electronically to the council's receiving bank account. The sum to be transmitted will be the amount of the loan less the fee. Interest will be charged from the date of advance.

## 12. Scheduled Repayments of Loans

Scheduled repayments due from parish, town and community councils are collected by Direct Debit. A Direct Debit Instruction is supplied with the LC1 form.

A council should ensure that its paying bank account has, on a scheduled payment day, sufficient funds for the due amount. When the day falls on a Saturday, Sunday or other non-banking day, the payment will be collected on the next banking day. Further information on payment by Direct Debit is available from the website.

Payment Notices are sent to the borrower 28 days ahead of a payment date. Payment Notices are not invoices and scheduled payments are due under the terms of the loan agreement irrespective.

PWLB reserves the right to charge interest on late payments, which will be at the Bank of England base rate for the day from the relevant payment date to the date on which PWLB's account is credited. The same terms apply to delayed premature repayments.

### **13. Premature Repayments**

Councils should not borrow in advance of need or for longer than necessary. A loan will normally be repayable only by the regular payments due under the agreed terms. PWLB has discretion to accept the early repayment of a loan, in whole or in part, but the settlement amount will not favour the borrower over the National Loans Fund. For further information, please see the PWLB's guidance note [LC3](#), available on the website, [www.pwlb.gov.uk](http://www.pwlb.gov.uk).

### **14. Further Information**

Enquiries should be made to the contact points shown in the heading to this note. PWLB's website has a page on [lending to parish councils](#), with forms, a calculator of indicative loan charges, guidance on early repayment, links to related websites etc.

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