

COMMONWEALTH DEVELOPMENT CORPORATION ACT 1999

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Financial assistance by Government

Section 8: Repayment of old loans etc.

31. The Government's financial relationship with CDC is governed by the 1978 Act (which this Act will repeal on CDC's registration). The main purpose of section 8 is to maintain that relationship unaltered, pending financial restructuring.
32. Three provisions of the 1978 Act are mentioned in this section:
 - Section 9 of the 1978 Act permits CDC to borrow money and allows the Secretary of State to lend money to CDC from the *National Loans Fund* ("NLF") (with the consent of the Treasury). This is the Government's fund for borrowing and lending. It is held at the Bank of England and operated by the Treasury. This has been of assistance to CDC especially for short-term borrowings. No borrowings by CDC from the NLF were outstanding at the time these explanatory notes were prepared.
 - Section 10 of the 1978 Act empowers the Secretary of State (with the consent of the Treasury) to make financial "advances" to CDC in order to provide it with working capital. These are, in effect, loans which CDC repays over time on terms specified by the Secretary of State, with the Treasury's approval. At the time these explanatory notes were prepared, a cumulative total of some £755 million was outstanding. The advances have been interest-free since 1995.
 - Section 11 allows the Government to give CDC or one of its subsidiaries a *guarantee*. A guarantee is an arrangement whereby the Government agrees with a third party (e.g. a bank or other lender) that if CDC or (as the case may be) a subsidiary of CDC defaults on its financial obligations (e.g. fails to keep up repayments on a loan, or to pay interest or any other charges) the Government will meet those obligations instead. The existence of a guarantee can give greater confidence to a lender that it will be repaid and so can help CDC to borrow at lower rates of interest, for example.
33. The effect of section 8 is that the terms of all funding provided to CDC under the powers of the 1978 Act can continue to apply, even after registration; and *subsection (2) (b)* permits the Secretary of State after registration to vary the terms on which an advance or guarantee was provided, if CDC and (see section 22(1)(b)) the Treasury consent. *Subsection (4)* preserves the effect of provisions requiring the Secretary of State to render accounts of sums issued and received by him under the 1978 Act, and *subsection (5)* preserves the effect of guarantees given under the 1978 Act, and the effect of similar accounting provisions in relation to them.