

**To: Chief Financial Officer,
local authorities in
England, Wales and Scotland**

Circular No. 147

20 October 2010

PWLB INTEREST RATES

Following the Chancellor's announcement on the Spending Review today, HM Treasury has instructed PWLB to:

- Increase the average interest rate on all new loans to an average of 1.00% above Government's cost of borrowing. This will take effect immediately.
- Publish at the end of each month a list of individual loans it has made to local authorities including the type, amount, term and rate applying to each loan.

The role of the PWLB is to on-lend central government's own borrowing to local authorities to deliver capital investment, while HM Treasury is responsible for determining the methodology used to set the rates at which PWLB transacts. In tackling the fiscal deficit, the Government has indicated that it has had to make difficult choices around borrowing and capital investment. To ensure that the rate at which loans are made available to local authorities better reflects the availability of capital funding post-Spending Review and encourages optimal borrowing and investment decisions, HM Treasury has determined that:

- PWLB lending rates on new fixed rate loans should be increased to an average of 1.00% above gilts.
- the interest rate payable on new variable rate loans (loans agreed from this date onwards) will be set at, and thereafter reset, at the equivalent of an average of 1.00% above the general collateral repo rate for one, three or six months, as appropriate.

HM Treasury has also confirmed that the methodology for determining rates for early repayment remains unchanged.

The Government recognises that local authority decisions on borrowing can commit electors to repaying loans for up to 50 years. To ensure that borrowing decisions are transparent and consistent with measures adopted elsewhere in the public sector, HM Treasury has determined that a detailed monthly list of individual local authority loans sourced from PWLB will be published on the PWLB website. The first list will be published on 1 November.

An update to the PWLB Lending Arrangements circular will be issued in due course.

**Mark Frankel
Secretary**