

RESTRICTED



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Ken Lee & Ken Barnes
Chairmen
Local Authority Housing & Treasury Management Panels
CIPFA
3 Robert Street
London
WC2N 6RL

Handwritten signatures of Ken Lee and Ken Barnes.

1 December 2011

HOUSING SELF-FINANCING TRANSACTION: INTEREST RATES

Thank you for your letter of 23 November.

Public Works Loan Board (PWLB) Circular 150 sets out the rationale for the decision to make available reduced PWLB rates on 26 March 2012 to all local authorities required to borrow under the housing self-financing transaction.

Given the size and one-off nature of the transaction, certainty for the public sector finances around the timing of this significant borrowing was a matter of particular importance in reaching this decision. Additionally, in a period of global financial uncertainty, the financial risk for local authorities of holding significant sums in advance of need, alongside the potential operational risk to the delivery of self-financing, was clearly a concern for central government as well as many authorities.

The decision to limit the availability of the reduced rate also reflected local authority responses to the Department for Communities and Local Government (DCLG) which indicated that the vast majority of responding authorities would not be borrowing significantly in advance of the transaction.

In summary, I believe the reduced rate is an attractive one which demonstrates our ongoing commitment to this transaction. Managing the transaction on one day ensures that it is fair and that all participating local authorities have access to the same lower rates. It will ultimately be for those authorities impacted by self-financing to determine whether or not they choose to take advantage of the reduced rate on 26 March 2012.

RESTRICTED



I am aware that the idea of forward starting rates for PWLB lending has been discussed and there are a number of difficulties with this. These include limitations within the statutory requirements governing PWLB lending to local authorities and incompatibility with existing operational systems. On this basis, it is not practical to pursue this approach.

The PWLB together with DCLG and HM Treasury are mindful of the operational risks involved for all parties in completing this large and unique transaction and have been planning carefully for several months so that the transaction and all supporting processes, infrastructure and contingency arrangements are well tested ahead of time. We will continue to engage with the local authority sector to ensure that the arrangements are robust and deliver self-financing effectively.

Best wishes
A handwritten signature in black ink, appearing to read "Danny Alexander". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

DANNY ALEXANDER