# PUBLIC WORKS LOAN BOARD

*National Investment and Loans Office*
*1 King Charles Street London SW1A 2AP*

*www.pwlb.gov.uk*

*Telephone: 0171-270 3870/3*
*GTN: 270 3870/3*
*Fax : 0171-270 3860*
*e-mail:pwlb@nilo.gov.uk*

**Circular No. 119**

To the Chief Financial Officer
of local authorities in
England, Wales and Scotland

22 February 2000

NATIONAL LOANS FUND LENDING RATES



1. Under the terms of the National Loans Act 1968 the Treasury is required to determine the rates of interest payable on loans made by the Board. Section 5 of the Act sets out that rates so set must be at least sufficient to prevent a loss by comparison with what it would cost the Treasury to borrow for a comparable period and on other comparable terms.

2. The Treasury has recently concluded that the National Loans Fund, which provides the money for the Board's lending and is managed by the Treasury, is at risk of losses with lending at long maturities because, with no gilts in issue beyond 30 years, it does not have hard information on its borrowing costs beyond 30 years. Also, in the light of no significant new borrowing by the Treasury at a time when demand is strong, the 30 year gilt yields are artificially depressed. The Treasury has therefore decided that it would be imprudent to determine rates for periods of more than 25 years as the National Loans Fund would be highly exposed to making actual losses on loans with longer maturities regardless of whether it is possible to set a rate which technically complies with section 5 of the 1968 Act. For these reasons the Treasury has asked the Public Works Loan Commissioners to modify their lending arrangements so that loans will not normally be made for periods in excess of 25 years.

3. In these circumstances and in order not to exacerbate the situation, the Commissioners have agreed that, with effect from the date of this Circular, they will not normally make loans for periods greater than 25 years: this is reflected in the board's Interest Rate Notice 09/00 which accompanies this Circular.

4. There are some residual contractual obligations on existing loans outside the quota whereby the Commissioners may be required to continue to make loans for periods over 25 years and the Treasury has agreed to determine rates insofar, as is necessary for that purpose. These rates will be used additionally by the Commissioners for discount purposes relating to the premature repayment of loans with residual periods of more than 25 years.

5. These changes amend sections 14, 16 and 22 of the Board's Circular No. 118 dated 25 March 1999. Enquires relating to this Circular should be made to 0171-270 3855.

I H PEATTIE
Secretary