



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

20 December 2018

Clive Betts MP
Chair
Housing, Communities and Local Government Committee
House of Commons
London
SW1A 0AA

Dear Clive

PUBLIC WORKS LOAN BOARD LOANS

Thank you for your letter of 12 November about Public Works Loan Board loans. Please accept my apologies for the delay in providing you with a response.

I am glad that the removal of the Housing Revenue Account cap at Budget 2018 is welcomed by you and your committee.

You asked about the Public Works Loan Board (PWLB) early repayment premium. The Treasury, along with the Ministry of Housing, Communities and Local Government, will always consider reforms that increase the efficiency and value for money of public services. However, I do not believe there is a clear case for removing the PWLB early repayment premium.

As you know, borrowing by local authorities adds to the national debt. The premium is an important mechanism to ensure that local authorities properly recognise these costs when they make investment decisions. Removing the premium would transfer costs from the councils that knowingly created them onto the wider taxpayer.

In addition, it is important to note that the government funds PWLB loans by issuing bonds which typically commit the government to pay a fixed amount of interest for a set period of time. If a local authority repays a PWLB loan early, the government must continue to make these fixed payments for the lifetime of the bond. Under the National Loans Act 1968, the PWLB is not legally allowed to make a loss on a loan. The early repayment premium primarily exists to cover the ongoing cost to government of the underlying bonds.

I am copying this response to the Secretary of State for Housing, Communities and Local Government.

PHILIP HAMMOND