

COUNCIL ASSEMBLY

(ORDINARY)

TUESDAY 29 NOVEMBER 2011

QUESTIONS ON REPORTS

ITEM 5.1 TREASURY MANAGEMENT – MID YEAR UPDATE 2011/12

1. QUESTION TO THE CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY FROM COUNCILLOR TIM McNALLY

Given the poor interest rates being received, has the cabinet member considered deploying a proportion of the huge sums held on deposit to lend to first-time home buyers in Southwark?

RESPONSE

The proposal would require a policy review to determine the feasibility of implementing such a scheme, including the financial risks and costs should borrowers default. We do not provide a banking service, however, and have no current plans to. The sums held on deposit underpin the financial viability of the council and are not unreasonable for an organisation of our type, size and activity.

It is not expected that council officers are best placed to make the necessary credit assessment of, and engage financially with, borrowers. We will consider working with banks or other institutions that do have such skills and mechanics, although we are not looking to do the bankers jobs for them or to further underwrite their risks and profit.

A small number of schemes elsewhere have considered that the Housing Acts allow powers for a proposal of this nature. Those schemes have worked with banks through councils providing balances as guarantees and indemnities, in order to allow targeted borrowers to access better and more affordable mortgage facilities from the banks.

The cash balances of the council represent moneys set aside in reserves and other balances to meet future spending plans and liabilities. The use of cash balances to support a proposal of this nature, whether through direct advances or through banks, would need to be treated as capital expenditure, and would therefore reduce the resources otherwise planned to meet current council priorities.

2. QUESTION TO THE CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY FROM COUNCILLOR JAMES BARBER

Given the poor interest rates being received, has the cabinet member considered following the example of other boroughs and providing a £2 million subordinated loan to London Mutual Credit Union to give them a greater facility to offer affordable borrowing to Southwark residents in order to address the shortage of affordable credit when compared to payday loans with usurious interest rates?

RESPONSE

I understand that the leader of the council recently met with London Mutual to offer any practical assistance that the council can to bring affordable credit to a larger number of people in Southwark, particularly in view of the dramatic rise in short-term, high interest money lending on the high street. Whilst London Mutual did not request assistance through a loan at that time, I understand that conversations with them continue. It is of great credit to London Mutual that their success has been achieved with limited financial support and on the initiative of their management. Their recent expansion into new offices in Peckham is a reflection of the progress that they are making and their growing number of clients who can benefit from their skills and expertise.

A loan to an organisation such as the London Mutual could be a policy objective irrespective of the level of external interest rates and the return the council receives on its balances, as in periods of higher interest rates the alternative providers are still likely to require very high returns, if not even higher.

An advance of this nature does not meet the definition of an investment for treasury management purposes, and would count as capital expenditure albeit that this may be achieved through a revenue contribution. Consideration would need to be given to the rate of return expected from the London Mutual, as this would affect their ability to meet its objectives.

The cash balances of the council represent moneys set aside in reserves and other balances to meet future spending plans and liabilities. The use of cash balances to finance this item as capital expenditure would reduce the resources otherwise planned to meet other council priorities.