

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.

SUPPLEMENTAL QUESTION FROM COUNCILLOR TIM McNALLY

Thank you Madam Mayor, yes I would. I would like to thank the cabinet member for his response and I would like to ask him that given that the council does at any one time carry several hundreds of millions of pounds in its various accounts, would he consider looking at some innovative ways of using some of that, given the really poor interest rates that we do receive; because clearly at times like this it is for the council to help kick-start some of these processes as much as it is for waiting for the government to send the money down?

RESPONSE

I will like to thank Councillor McNally for his supplemental question. I think the answer sets out things quite clearly in this situation. I think the real challenge in what he is proposing is first of all the risk that is associated with that, and secondly the fact that these reserves are not unused money, they are money that has been earmarked for a purpose, so what he is really talking about is identifying capital funding for this purpose. Now if we do that, and you will be well aware of the pressure we have on capital budgets at the moment, particularly in this year, next year and the year after, that means we will have to forgo important capital projects in this borough, which I am sure all of us would not want to see. So I think it is an interesting suggestion, it is not that far from some of the suggestions we were making in opposition and the parties opposite were telling us wouldn't work then, so I am not sure the situation has changed a great deal. I think the answer is in terms of the issues about risks that we will be putting the council's funds to, I think mean that it is probably not a sustainable idea but an interesting one.

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.

SUPPLEMENTAL QUESTION FROM COUNCILLOR JAMES BARBER

Yes please Madam Mayor. Could Councillor Livingstone ask London Mutual if further capitalisation would help them in helping more Southwark residents? I note he said that it would involve capital or revenue, but Southwark has over a quarter of a billion pounds in various types of investments. Offering to buy a one of two million pound bond in London Mutual would count as an investment it wouldn't take capital out of the capital budget and it wouldn't cost revenue.

RESPONSE

I would like to thank Councillor Barber, whose supplemental question is similar to my answer before. I mean, it is an interesting idea but it is not something that London Mutual itself thinks is worth pursuing. It is not something they have been discussing with us in any way, but the issues around what we will be doing about capital are pretty much in the answer to Councillor McNally. It is not something that London Mutual Credit Union is seeking. We are obviously trying to work with them in other ways; I think the credit union has a fantastic role to play, a really important role to play. but this is not something which is a sensible investment of our money at this time and it would not be a good use of capital given those pressures in the capital budget that we have.