

## Councils demand risk-free borrowing

**HRA reform raises interest rates fears as authorities prepare to take on debt**

**Gavriel Hollander**

Councils are holding detailed talks with the Treasury in a bid to prevent them falling foul of movements in the money markets when they raid government coffers for loans next month.

The talks between the Local Government Association and Treasury officials centre on councils' desire to borrow money based on a three-month average price of gilts - the price of government borrowing. Whitehall's proposal, which councils fear could prove disastrous, would see the borrowing based on the price of gilts on a single day - 26 March - leaving them at risk of higher interest payments if prices rise in the days beforehand.

Under the new local government self-financing regime, 139 English councils will have to borrow hundreds of millions of pounds from the Treasury-backed public sector lender the Public Works Loans Board after taking on extra debt as a result of



**Trouble ahead: Paul Price**

housing revenue account reforms.

The PWLB can offer loans to councils at around 0.15 per cent above gilts. This is significantly lower than rates offered by the bond market, typically between 1 and 2 per cent over gilts.

'It all looks good at the moment but if it [the gilt rate] suddenly went up by 1 per cent, there would be trouble,' said Paul Price, head of housing at Tendring Council in Essex.

A 1 per cent hike would add £4 million to the annual payment for Wandsworth, in south London, which faces the biggest HRA bill of £436 million.

At an LGA conference before Christ-

mas, councillors called on Treasury minister Danny Alexander to shield them against a rise in gilt pricing. The LGA had previously written to Mr Alexander to flag up the potential risk.

'We are trying to find a way in which councils can spread the risk of borrowing on one day,' said Caroline Green, senior policy consultant at the LGA.

John Whitehouse, associate director at Sector, a consultancy that has been advising councils, said: 'If a council's business plan is already tight, it [a fluctuation in intra-day pricing] could be disastrous for them.'

A Treasury spokesman said: 'There are clearly operational risks involved in this large and unique transaction, and officials on all sides have been planning carefully for many months so that the transaction goes well.'

'Managing the transaction on one day ensures that it is fair and that all participating local authorities have access to the same lower rates.'

Councils were expecting to receive finalised details of their individual HRA debt settlements this week.

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## Morrison faces losing council deals

Repairs and maintenance provider Morrison faces losing two major council contracts amid concerns about its performance.

In London, Southwark Council has given the contractor until the end of March to improve standards before considering its options.

Meanwhile, Birmingham Council has said it wants to meet the firm later this month and is considering ending its £3 million deal.

Southwark has issued default notices for £1 million, the majority of which stems from work it has paid for but which it says has not been completed by Morrison.

'We're not happy with the performance we've had in recent months,' said Ian Wingfield, cabinet member for housing at Southwark. 'We want to see an immediate improvement and have given them a deadline until the end of March to radically improve performance.'

**'Morrison has not been very successful in meeting needs or demands.'**

*John Lines, Birmingham Council*

The contract is due to end next year. In Birmingham, the council has threatened to end a five-year contract after just two years. John Lines, cabinet member for housing at Birmingham Council, said: 'Morrison has not been very successful in meeting needs or demands. They have been failing for more than a year and they said they would improve.' Mr Lines added that he would consider the contract unless there was 'significant improvement'.

Morrison created an improvement plan in December 2011 for the Birmingham contract in which it admitted 'performance hasn't been that required' but pledged to improve.

A Morrison spokesperson said: 'Working together with Southwark Council, we have developed an improvement programme, which is already showing good progress.'

He added: 'Our contract with Birmingham Council is a partnership, and we're pleased that by working together service is improving.'

## Development of the week Willow Corner, Charlwood, Surrey



**Local authority** Mole Valley Council

**Housing association** Mount Green Housing Association

**Developer** Farnrise Construction

**Architect** Paper Projects

**Number of homes** Three two-bedroom bungalows, one as a specialist disabled unit

**Cost** £527,000

**Completion date** January 2012

**The scheme** The three Willow Corner bungalows will provide affordable rent accommodation in Mole Valley.

Constructed on the site of a garage forecourt, owned by the council, the bungalows are constructed mainly of timber products. Natural feather edged timber boarding was used on external walls and natural cedar shingles on the roof.

The scheme received £195,000 from the Homes and Communities Agency.