

RENEWAL RECREATION AND HOUSING POLICY DEVELOPMENT AND SCRUTINY COMMITTEE

4TH OCTOBER 2022

MEADOWSHIP HOMES PHASE 2 – CHANGES TO FINANCING (FSD22069) - SUPPLEMENTARY INFORMATION

1. As Members will be aware, there has been a considerable amount of volatility in the financial markets following the Chancellor's fiscal statement and Growth Plan announced on the 23rd September, with government gilts particularly affected.
2. This has a significant impact on the Meadowship Homes Phase 2 scheme, as the yield on the Funder's loan is set with reference to an index linked gilt, specifically the one whose maturity closest matches the weighted average life of the loan.
3. As noted in paragraphs 7.7 – 7.8 of the main report, the maximum funder yield that could be accepted with the proposed changes would be 2.93%, which equates to a gilt price of around 109.
4. The table below shows the reference gilt price over the past four months, which shows the dramatic effect of the announcement (from 98 on 22nd September to 58 on the 26th). Yields are inversely related to the price, so as the price reduces, the yield increases.



5. Since then, the Bank of England has announced that it will carry out temporary purchases of long-dated gilts to restore orderly market conditions, which has resulted in the significant increase seen above from the 29th September, with the price currently at 115 as at the time of writing (3rd October).
6. In order to protect against further volatility in the rates, it is proposed that the Funder will hedge the gilt as soon as possible, once they are satisfied with progress on the drafting of the legal documents, and subject to the prevailing gilt yield meeting the financial model criteria.