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WRITTEN QUESTION TO THE MINISTER FOR HOUSING BY DEPUTY G.P. SOUTHERN OF ST. HELIER

ANSWER TO BE TABLED ON TUESDAY 14th MARCH 2006

Question

Following the adoption by the States of P.161/2003 lodged by the former Housing Committee the 95 flats that have been built on the Le Coie site at a cost of £ 20.3 million have been sold to the Jersey Homes Trust for £12 million. Would the Minister give members details of the total estimated sum of the following additional costs that will accrue to the States over the coming 21 years –

(a) interest rate support, and

(b) rent rebate payments starting in 2007, when these are compounded over the period at 3.5% annual increases.

Will the Minister indicate to members whether the total sum spent by the States in facilitating the transfer of ownership to the Jersey Homes Trust represents value for money, and if so, can he explain why? What steps, if any, does the Minister propose for reducing expenditure and dependence on such housing trust schemes, and if none, would he explain why?

Answer

(a) The Jersey Homes Trust (JHT) will fund the purchase by commercial loan. The States, through the Housing Development Fund, will meet the Trust's interest charges above 4%. As the loan is based on a margin above base rates, the cost to the States will vary as base rates move.

At the current base rate of 4.5%, the annual States interest subsidy will be some £152,000 in the first year, reducing as the outstanding loan balance diminishes, giving a total sum in the order of £2 million over the 21 year period. Allowing for a reduction in the time value of money over the 21 year period at a rate of 3% per annum, the net present value of the estimated interest subsidy is some £1.63 million.

(b) Any rent rebate payable will depend on the individual circumstances of the tenants and cannot be forecast. The cost will be the same whether realised as rent rebate payments or foregone rent abatement if the property were retained by the States.

Having approved the site for social housing and developed the building, the States has a choice of either retaining the property as States social housing stock or disposing to a Housing Trust.

The difference between the cost of bringing the property into being and its sale price will be reflected as a loss on sale in the States accounts equivalent to the capital subsidy. This subsidy represents the cost of providing high quality social housing on a difficult urban site for which the rental stream is limited by the fair rents determined. If retained, the carrying value in the States accounts would be determined through the rental income stream rather than the cost of development and the value written down accordingly.

After disposal, the States will forego rental income from the property, but will not meet any associated management, maintenance or future refurbishment costs. The States will provide interest subsidy support as stated in (a) above, but this cost will be more than offset by the investment interest received on the £12 million capital receipt.

These income and expenditure sums are dependent on a number of variables, principally interest rates and investment returns, and will vary throughout the loan repayment period. It is, therefore, not possible to determine an accurate forecast of 'cost' to the States associated with the transfer over the loan repayment period.

Once the loan has been repaid, the States will cease to pay any interest subsidy. Any surplus income generated to the Trust above that which has not been set aside, reserved or committed under the Trust's agreed reserves strategy, will be payable to the States.

The new arrangements for rezoned sites have seen Housing Trusts develop social rented properties with no capital subsidy and loan interest capped at 6% rather than 4%, effectively providing new social rented properties at no cost to the taxpayer.

In the urban area, developments have tended to be via the transfer of exhausted States social rented stock for refurbishment or redevelopment by Trusts. Whilst these transfers have been at an initial nominal value, the amortisation model provides for a contribution to the States once the development is completed. Close involvement by the Housing Department in the management of these projects, both in the design phase and through an 'open book' arrangements with the Trusts, ensures that the 'value for money' ethos applied to States capital projects is brought to bear.